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# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

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## EAST EUROPE REPORT

### ECONOMIC AND INDUSTRIAL AFFAIRS

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INTERNATIONAL AFFAIRS

POLES CONFER ON COMPARATIVE ECONOMIC INTEGRATION IN CEMA, EEC

Warsaw GOSPODARKA PLANOWA in Polish No 11, Nov 84 pp 518-520

[Article by Antoni Marszalek: "National Conference On International Economic Integration Of EEC And CEMA Countries And Processes Of Globalization Of International Relations. Similarities And Differences"]

[Text] A conference organized by the Institute of Economic Policy of Lodz University and the Institute of International Economic Relations of the Main School of Planning and Statistics in Warsaw was held on 3-5 May of this year in Sulejow. Aside from Polish participants, many specialists from France, the USA, Hungary, Great Britain and Zaire also took part in the proceedings or sent reports to be read.

This was the third conference in the series "International processes of economic integration: Comparative aspects".<sup>1</sup>

The motivation for these conferences has been the conviction, based on studies conducted by the Scientific Section on the World Economy at the Institute of Political Economics, of the organizers that comparative study of integrative processes will enable us to much better recognize principles governing integrative processes.<sup>2</sup>

The premises which guided the organizers were as follows:

1. The contemporary processes of international integration that are taking place on the European continent between the EEC and CEMA nations have great importance in establishing a model of international relations for Europe. Because we presently attach so much importance to integrative processes, study of the principles governing these processes in EEC and CEMA countries is both useful and necessary. Both the presentations of conference participants and the results of the other conferences have strengthened our conviction that it is necessary to conduct comparative studies of the processes of international integration and to organize conferences on this subject. It seems that the problems of integration and comparative analysis of the distinctive features EEC and CEMA have acquired new and unforeseen scientific importance. Therefore, in the future, we also intend to begin comparative study of integrative processes outside of Europe.

2. Modern processes of internationalization of social and economic relations do not amount to just the expansion and deepening of the international division of labor, so-called development of foreign trade, cooperative relations, scientific and technological cooperation and joint enterprises, etc. are expressed by profound changes in international relations and the process of globalizing these relations. With the continuous growth in industrial output and social relations, Western Europe has become less important to the rest of the world while the United State, the USSR, Japan and in the last 20 years certain third-world countries, newly-industrialized lands and the oil-producing countries have become more important.

3. Under the increasing globalization of international relations and dangers to development such as limited raw materials, environmental pollution and the overpopulation, hunger and disease of third-world countries, intensification of the controversy between the northern and southern hemispheres (the poor and wealthy countries, respectively) and the recent controversy between the East and West (which is especially harmful to Europe) and Europe's decreasing role in these processes, the common interests shared by European nations are becoming more and more obvious (which has given the European Conference on Security and Cooperation such an important role and so much initial success) because of their geographical position, cultural similarities as well as the need for constructive joint efforts of the nations in a United Europe to make positive changes in the modern world and to build a new, fair and progressive social order.

Therefore, there arguments are enough to study the processes of international integration in the East and West not only in the context of their essential differences but their similarities as well. If we try to apply European relations to other continents and countries as well as to the fundamental conflicts between the two superpowers (the USA and USSR), we may find that if we consider the challenges and dangers to our existence and development on a global scale, the differences between nations (frequently stressed in political literature) of a politically-divided Europe are somewhat secondary and artificial in nature. The subject of the conference was an attempt to place the development of integrative processes taking place in Europe against a background of changes in the formation and functioning of the world economy. In approaching these problems, we were and are convinced that they will soon be the subject of the most earnest world discussion.

We are interested in the problems of international economic integration of the EEC and CEMA countries in a context of the globalization of international relations. We felt it was completely obvious that industry and social relations have become permanently internationalized and that this has expressed itself in the increasing dependency that countries have on one another even though this does have its retractions and deviations. In the 20th century, especially since the end of World War II, an attribute of the development of international relations has been their globalization. This means that an ever greater range of interrelations has encompassed the entire world and all of its states and nations. These interrelations affect the existence and growth of these states and nations because they may encourage development but also carry grave dangers. All of the world powers are responsible for the state of these relations but it has already become obvious

now that a bipolar model of international relations is not the best option. It should be supplemented with important stabilizing elements. It is probable that a Europe less dependent on the presently dominant (bipolar) model could make a better contribution to the establishment of a progressive model for international relations.

The problems that were the subject of our conference concern the nature of the relationship between the course of international economic integration in the case of the EEC and CEMA and the increasing interrelations of a global nature in international relations. We ask whether the regional processes of international integration are a stage on the road to globalization or whether these ties are still more complicated. What interests us here is the influence that international regional integration has on the development of the world economy, especially its global aspects, on the course of processes of international integration and the model and intensity of these processes. Finally, we are also interested in the positions that EEC and CEMA take on the basic problems of the world economy, what influences these positions, and their similarities and differences.

Reports that were sent and discussed at the conference covered three main areas that the economic sciences have in the comparison of processes of international integration in EEC and CEMA. These areas, as the basis for more conferences, were formulated as follows:

A. The theoretical foundations of the ties between international economic integration and globalization of internal economic relations. Reports by A. Marszalek and J. Sarusz-Wolski (Lodz University) were devoted directly to this subject. On the other hand, Z. Bombera (Academy of Social Sciences) discussed in his report the relations between internationalization and integration in the system of functioning and development of the world economy while S. Polaczek (Institute of Economic Sciences) dealt with the relations between the growth of international relations and integration.

B. The influence of regional integration on the growth of the world economy. In this area of discussion, P. Bozyk (SGPiS [expansion unknown]) pointed out the connections between the mechanisms of economic integration and the process of globalization of international economic relations and P. Kotelnicki (IKC HZ [expansion unknown]) spoke about the relationship between economic integration of EEC and CEMA nations and unequal economic development of nations on a global scale. A. Michalewski (Lodz University) discussed the course of processes of international integration under conditions of inequalities of the world economy. Meanwhile, P. Samecki (Lodz University) tried to measure the influence that integrative groupings of EEC and CEMA nations might have on the integration of the world economy.

C. The EEC and CEMA on the basic problems of the world economy. In a group of reports on this topic, A. Budnikowski (SGPiS) presented the bonds between the integration of CEMA nations and the global problems of the world economy. The next three reports in this group concerned the EEC countries: M. Blaszczyk (Lodz University) presented the economic relations of EEC and African nations in a context of the functioning of global processes; S. Miklaszewski (Krakow Academy of Economics) reported on the EEC policy toward third-world nations

from 1964-1983 and A. Wojtyna (Krakow Academy of Economics) considered how the EEC's agricultural policy has influenced the stability of the world food market.

Aside from the above-mentioned reports that attempted to answer the question of the ties between the growth of international economic integration in the East and West with globalization of international relations, 13 other reports were sent to the conference and these analyzed different aspects of integration in EEC and CEMA as well as East-West and North-South economic relations. One of these reports concerned limitations to the development of the management of mineral resources on a global scale. The first group of these 13 reports included texts by E. Janton Drozdowska (Adam Mickiewicz University), E. Ostrowska (Wroclaw Polytechnical Institute), Z. Podlasiak (Lodz University), K. Przybylska (Krakow Academy of Economics), J. Rudek (Wroclaw Polytechnical Institute), R. Stawarska (Poznan Academy of Economics). The second group contained articles by S. Drobny (Krakow Academy of Economics), J. Sozanska (Wroclaw Polytechnical Institute) and L. Toth (Szeged, Hungary). The third group included J. Dudzinski and S. Flejterski (PSZ [expansion unknown]), M. Karasinska-Fendler (Lodz University), M. Roznowska and D. Tomczak (Warsaw Polytechnical Institute) as well as a report by T. Pindor, L. Preisner and K. Posluszny (Academy of Mining and Metallurgy). All of these reports have been included in a volume published by the University of Lodz Publishing House. Three more reports were presented at the conference that could not be included for publication due to their late submission but are nonetheless worth mentioning. They are M. Kaser's (Oxford, England) report on East-West economic relations in a context of western policy, a report by F. Kinsky (Nice, France) on the international crisis of the EEC, A. Werner's (Warsaw) report on the role that the USA and USSR have had in the emergence and course of integrative processes in the EEC and CEMA. Professor Banyaku of Lumumbashi University read a report on the specific problems of regional integration in sub-saharan Africa.

In discussion, it was recognized that it is highly useful to apply the processes of international economic integration to changes that are taking place in the world economy, especially those of a global dimension. In this area, there are many relationships that are too little well known. There is an urgent need to intensify scientific research in this area. The application of so-called international integration to changes in the world economy, may, at the present level of our knowledge of these relationships, only be very preliminary, hypothetical and often intuitive. It is necessary to establish an order of designations for the concept of globalization and to systematize the problems and terms associated with the functioning of the world economy, its component parts, the relationships between these parts as well as the establishments of principles of functioning for the parts and the whole. What place does the part take within the whole and what connections does it have to other elements within the whole? What is the dynamic of the whole and the individual component and interconnected parts of the processes of international integration? Deeper analysis of the mechanisms, dynamics and laws of the growth of the world economy along with its internal contradictions and extra-economic circumstances will undoubtedly enlarge our chances of correctly evaluating the substance and prospects for development of various forms and efforts to achieve international integration in various regions

around the world as well as within Europe. This subject was addressed by Z. Chrupek, Z. Kamecki, A. Michalewski, S. Polaczek, A. Wojtyna and others.

Participants to the discussion pointed out that our knowledge of many aspects of how CEMA functions is limited. Therefore, we sometimes and even frequently have to deal with fundamental differences in the assessment of the functioning of CEMA, its substance, directions of growth and connections with the world economy. These differences prove that despite the fact that there have emerged so many different opinions on the subject of this organization, our knowledge in this area is still insufficient. These differences also concerned many subjects discussed at the conference. Some felt that CEMA is a organization which is functioning well, growing and integrating the socialist countries while others said that it has still not really set integrative processes into motion. Some said it was an open organization while others said was closed and autarchical. Some felt that CEMA has a positive influence on the development of an international division of labor and the world economy while others claimed that it has a destructive and inhibitive influence. There were still many other examples of such differences in opinion.

The result of this discussion whose participants were Z. Bombera, P. Bozyk, A. Budnikowski, Z. Chrupek, L. Ciamaga, M. Guzek, Z. Kamecki, A. Kupich, L. Miastkowski, A. Michalewski, A. Wierzbicki and B. Wojciechowski was the conclusion that it was necessary to place greater emphasis on empirical study of the functioning of CEMA by organs such as the CEMA Secretariat and particular commissions. The participants also pointed out the need for similar studies of the EEC and the mutual relations between CEMA and the EEC. An unfamiliarity with many details has often been the cause of unjustifiable, highly flattering and sometimes outright apologetic evaluations of EEC or CEMA as well as some extremely negative assessments. At the same time, the basis for such assessments as well as everything of consideration to science should be serious knowledge alone. The real possibility for gaining such knowledge is also a crucial element in assessing the functioning of a system of integration. It would also be interesting to see an exchange of views (such as one between L. Miastkowski and A. Wiczorek) on the subject of harmonizing national interests and the weight that this problem has in the realization of international integration. It was pointed out that this is, in essence, the chief problem in working out developed forms of international integration. There are still too few extensive studies of this subject. Much discussion at the conference was also devoted to the search for ways to measure the influence that international integration has on the world economy. This was discussed in greater detail by Z. Chrupek and A. Rybowski.

In conclusion, we can say that comparative studies in our country on the processes of international integration of EEC and CEMA countries have still not become "the order of the day". However, such studies are being conducted at some centers and are beginning to show their first few results, mainly in the form of reports and scientific articles. More conferences on that subject arranged by Lodz University in 1980, 1982 and 1984 show the increasing interest taken by the academic community on this topic and the positive assessment given the idea that its study should be included in the mainstream

of studies on international integration and this should make great contributions to our understanding of this aspect of contemporary international relations.

It is worth adding a certain matter of a didactic nature which was brought up by Z. Kamecki. He proposed that at least 60 hours of study of international economic relations be added to the course of higher studies in all fields of higher education. This proposal was favored by other speakers such as L. Ciamaga and L. Miastkowski and the conference participants supported this conclusion. Our economic policy has to a large degree been burdened with autarchical thinking. This has also been encouraged by our educational system.

Conference participants decided to continue holding future sessions devoted to the problems of international integration in Europe and other regions of the world.

#### FOOTNOTES

1. Two previous conferences took place in succession -- the first, in 1980, was entitled "Processes of International Economic Integration of the EEC and CEMA Countries. Similarities and Differences." The second, entitled "Stimulatory Developments in the Processes of Integrating the EEC and CEMA Countries. Similarities and Differences", took place in 1982. These conferences were also organized by the University of Lodz Institute of Political Economics.

2. This approach to the science of international relations in the areas of economics and political economics is not new either with regard to Western science or to socialist countries. Proof of this is the agenda of the World Conference of Economists, which took place in 1974 in Budapest. It was devoted to -- speaking generally -- the effectiveness of two models of integration: the socialist (CEMA) and the capitalist (EEC) models.

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GERMAN DEMOCRATIC REPUBLIC

SUSPECT FOREIGN TRADE STATISTICS CRITIQUED

Cologne DEUTSCHLAND ARCHIV in German Vol 18 No 3, Mar 85 (signed to press 26 Feb 85) pp 294-304

[Article by Raimund Dietz, member of the research staff at the Vienna Institute for Comparative International Economics: "The GDR's Trade With the West--Two Sets of Data, Two Perspectives"]

[Text] The data of the GDR on its trade with the West have always unusually greatly deviated from the statistics of its Western partners on their foreign trade with the GDR. The differences between the sets of data have increased dramatically in recent years. These facts are the reason for the following study. It pursues the intention to compare the sets of data in an easy-to-understand format and to attempt an assessment of the GDR West trade based on the different sets of data.

While the data of a state concerning its domestic economic situation are only open to an examination of their economic consistency, as regards foreign trade data there is in principle the possibility of an external control: The export of a country, to be an export, must be imported by other countries, the import is balanced by exports from partner countries.

A. Statistics and Considerations on the Causes of the Differences in the Data

Nevertheless the data do not coincide. For there are a series of factors that are responsible for discrepancies between exports (imports) of the reporting country and imports (exports) of the partner country. The discrepancies can be roughly divided into five categories<sup>1</sup>, differences:

a. In the methods of valuation, e.g., cif (cost, insurance, freight) and fob (free on board). The GDR values exports and imports according to fob, while the OECD partners value their imports according to cif. The differences are greater if transportation and insurance fees become bigger.

b. In the definition of the foreign trade, i.e. in the different definition of what transactions are recorded as foreign trade.

Discrepancies can:

aa. Arise from different treatment of reexports, reimports or of transit trade flows. While the export and import data of all CEMA countries also include re-exports, reimports, and transit trade transactions (principle of the general trade), the practice in the Western partner countries is not uniform. Many Western countries, including also Austria, the FRG, France, Italy, Switzerland report according to the principle of special trade, which does not include re-exports and reimports.

bb. Western data only include trade flows while the data of the CEMA countries also include so-called productive services, i.e. purchases and sales of patents, licenses and repair and assembly work. These activities are recorded as services (invisibles) in Western statistics.

c. In the identification of trade partners. The GDR, as most other CEMA countries, determines the export direction of a commodity according to the country of the purchaser and the origin of an import commodity according to the country of the seller. However, for most Western countries, the principle of the destination applies in the case of exports, the principle of the origin of the commodities in the case of imports.<sup>2</sup>

d. Caused by divergences in the timing of the recording of the transaction (apportionment between accounting periods). However, differences of this kind ought to balance out by combining several periods.

e. Differences between Eastern and Western data can also occur because the addition of the foreign trade turnover achieved in various Western currencies into the Eastern foreign currency rates is weighted<sup>3</sup>, weights that differ from the exchange rates on the international foreign exchange markets. However, in general it can be assumed that the weights correspond to the exchange rates or that they follow them with a relatively short time delay.

In the bilateral relations, the statistics of the reporting and partner countries are very far apart on account of the occurrence of transit trade (see b) and different identification of trade partners (see c). The great difference between GDR statistics and the mirror statistics of individual Western countries<sup>4</sup> reveals that the GDR markets its own products to a relatively small extent and has transferred this function to Western specialists (transit traders). In doing so, the Western partners assume the marketing risk or take out insurance for it and demand appropriate profit margins.<sup>5</sup> By totaling the data of the individual partners to a group, these differences in part cancel each other out, for the trade as a whole, i.e. including developing countries and socialist countries, they ought to disappear completely. There the differences would then be attributable solely to the cif-fob difference (see a), differences in timing the apportionment to the accounting period (see d) and specific handling of foreign exchange rates (see e).

P. Marer calculated that during 1960-1975 the exports of the six East European countries to 15 OECD countries exceeded the total imports of those countries by

an average of 4 percent, while the imports of the East European countries exceeded the exports of the OECD countries by an average of 12 percent during the same period. This resulted in a discrepancy for the trade balances: The cumulative trade balance of Eastern Europe with the 15 OECD states was also 12 percent higher than the cumulative trade balance of these countries with Eastern Europe. A comparison of the Soviet data with the Western partner country data showed discrepancies of similar magnitudes.

Calculations with more recent data largely confirm this pattern. We have compared the exports (imports) of five East European countries to (from) the capitalist industrial countries with the imports (exports) of all OECD countries from (to) the CEMA countries. Compared to the Western data in the long-term 1970-1980 average there was an overvaluation of the imports of East European countries of 8 percent, while the East export data exceeded the Western import data by 12 percent on the average. If there were only the fob-cif accounting differences, the Eastern fob export data would have to be below the Western cif import data. But this is not the case: The higher CEMA export data can be explained by transit deliveries to the developing countries. The growing export relations of recent years are probably the result of increasing barter transactions of the Eastern countries which the Western countries sell in developing countries. If the imports of the East European countries exceed the exports of the OECD area even though both use the fob valuation, then this is probably attributable to the more comprehensive concept of trade of the CEMA states. The latter do include reimports and "productive" services (Tables 1 and 2).

In analyses of the financial relations of Eastern Europe it is generally customary in the West to start out from the national statistics because they are regarded as more suitable for systematic reasons to estimate the balance of trade and indebtedness.<sup>6</sup> Western data are used especially because they are available frequently in more detailed, quicker and more convenient form (data tapes). This applies especially to the analysis of the commodity structure of the East-West trade.

In GDR trade with the West, the data problem attains another dimension, namely for the following reasons:

1. Of all CEMA countries, the GDR pursues the most restrictive information policy. In 1975, the GDR ceased providing information on exports and imports with individual countries.<sup>7</sup> Since then it only reports on turnovers with these countries. Separate data on exports and imports with the most important regions, these are socialist countries, CEMA countries, the capitalist industrial countries and developing countries disappeared from the GDR statistical year and pocket books since 1976. But these data were made available to international and CEMA organizations (UNCTAD and CEMA yearbooks), whereby the data frequently did not coincide, and in part contradicted, the turnover data in the GDR statistical yearbooks. After nervousness spread in the Western banking world concerning the financial position of the GDR at the end of the 70's/early 80's, the responsible officials of the GDR probably recognized that this publication policy damaged its reputation in the world. Therefore the GDR again expanded its reporting in its own publications (statistical yearbook and yearbook) in 1982 by making available at least data (data concerning 1980 and 1981) on exports

Table 1

Exports of CEMA Countries to the West: Ratio of Statistics and Mirror Statistics<sup>1</sup>

## Export Ratio

Year	Bulgaria	CSSR	Poland	Romania	Hungary <sup>2</sup>	E. Europe(5)	USSR
1970	1,18	1,06	0,95	1,07	1,18	1,05	0,84
1971	1,21	1,02	0,95	1,15	1,07	1,04	0,89
1972	1,27	1,01	0,99	1,12	1,03	1,04	0,84
1973	1,20	1,03	1,02	1,30	1,08	1,10	0,94
1974	1,08	1,10	1,05	1,31	1,01	1,11	0,98
1975	1,09	1,01	1,02	1,12	1,07	1,05	0,95
1976	1,15	0,97	0,98	1,08	1,08	1,02	0,96
1977	1,18	1,01	0,98	1,11	1,02	1,03	0,98
1978	1,26	0,97	1,01	1,13	1,01	1,04	0,91
1979	1,39	0,95	0,99	1,08	1,04	1,04	0,95
1980	1,68	1,01	1,04	1,18	1,09	1,11	0,99
1981	1,72	1,07	1,08	1,12	1,05	1,12	0,98
1982	1,63	1,04	1,10	1,30	1,16	1,18	1,02
1983	1,74	1,03	1,14	1,31	1,24	1,21	1,07

## Key:

1. Ratio of exports to the capitalist industrial countries according to CEMA country statistics to imports of the OECD area from CEMA countries according to OECD statistics (OECD imports = 1)
2. Since 1971 Hungary has defined the direction of its exports according to the country of destination.

Sources: Official statistics of the CEMA countries and OECD data bank.

and imports to and from the socialist and nonsocialist economic area (to start with also in reports of the German Foreign Trade Bank--DABA). In this connection, the data on the developments in trade with the nonsocialist foreign countries were surprising because they indicated an unusually strong growth of the CEMA exports accompanied by a shrinkage of imports, which, as we are going to see, was not confirmed by the partner country data.

2. The GDR does regard the inner-German trade as foreign trade but grants a special status to it. This is shown by the circumstance alone that inner-German trade is carried out in a special accounting unit, which, in terms of value, corresponds to a DM, but, in contrast to the DM, is not convertible because, e.g., GDR surpluses in trade with the FRG cannot be used to cover deficits in the other trade with the West. GDR trade with the West is thus split into two areas, which makes comparison of Western and Eastern statistics more difficult.

Table 2

Imports of CEMA Countries From the West: Ratio of Statistics and Mirror Statistics<sup>1</sup>

Year	Bulgaria	CSSR	Poland	Romania	Hungary <sup>2</sup>	E.Europe(5)	USSR
1970	1,07	1,16	1,07	1,11	1,09	1,10	1,09
1971	1,10	1,09	1,06	1,09	1,13	1,09	1,12
1972	1,10	1,09	1,08	1,08	1,07	1,08	1,06
1973	1,05	1,15	1,08	1,15	1,07	1,10	1,08
1974	1,15	1,20	1,16	1,22	1,10	1,17	1,08
1975	1,16	1,19	1,13	1,16	1,07	1,14	1,07
1976	1,10	1,16	1,23	1,09	1,11	1,17	1,04
1977	1,10	1,26	1,25	1,10	1,05	1,18	0,99
1978	1,04	1,25	1,16	1,16	1,05	1,14	1,03
1979	1,07	1,24	1,10	1,03	1,11	1,11	1,05
1980	1,04	1,25	1,03	1,05	1,13	1,09	1,12
1981	1,15	1,39	1,02	1,10	1,14	1,14	1,14
1982	1,24	1,36	0,98	1,13	1,12	1,14	1,15
1983	1,07	1,41	1,06	1,11	1,13	1,15	1,12

1. Ratio of imports from the capitalist industrial countries according to CEMA country statistics to exports of the OECD area to CEMA countries according to OECD statistics (OECD imports = 1)
2. Since 1971 Hungary has valued its imports according to cif and defined the origin of its imports according to the country of origin.

Sources: Official statistics of the CEMA countries and OECD data bank.

Namely, we have to compare the data of the GDR in the trade with the FRG with the West German statistics of the IDH (Inner-German trade) and the remainder of the GDR trade with the West with the OECD data concerning their relations with the GDR.

To simplify matters for the reader, we are looking at the foreign trade flows always from the GDR angle, i.e we call the exports of the West imports of the GDR according to the OECD statistics, vice versa.

The following findings are derived from the comparison of the data:

#### B. Inner-German Trade

IDH is twice undervalued in GDR statistics: first of all, because only about 90 percent of the IDH appears in the GDR statistics (Table 3, columns 1, 4 and 8). This occurs if an accounting unit (VE), which in fact corresponds to a DM, is equated with a valuta mark. There is no good reason why the GDR report

Table 3

## Turnovers in Inner-German Trade: Ratio of GDR to FRG Report

Quelle: (A)	Umsatz Mio. VM DDR (1)(B)	Wechselkurs <sup>1</sup> \$/VM DDR (2)(C)	Umsatz Mio. \$ DDR (3)(D)	Umsatz Mio. DM BRD (4)(E)	Wechselkurs \$/DM BRD (5)(F)	Umsatz Mio. \$ BRD (6)(G)	Relation (H) (3):(6) (7)	Relation (H) (1):(4) (8)	Relation (H) (2):(5) (9)
1970	4050,0	0,238	964,3	4411,2	0,273	1205,2	0,800	0,918	0,871
1971	4294,6	0,238	1022,5	4816,8	0,286	1379,8	0,741	0,892	0,831
1972	4827,7	0,258	1247,4	5308,8	0,314	1664,9	0,749	0,909	0,824
1973	4935,2	0,287	1418,1	5658,0	0,374	2117,0	0,670	0,872	0,768
1974	5997,3	0,287	1723,3	6922,8	0,386	2675,1	0,644	0,866	0,744
1975	6474,6	0,287	1860,5	7263,6	0,406	2952,3	0,630	0,891	0,707
1976	7360,0	0,287	2114,9	8145,6	0,397	3234,9	0,654	0,904	0,724
1977	7751,0	0,287	2227,3	8302,8	0,431	3575,4	0,623	0,934	0,667
1978	7972,7	0,287	2291,0	8424,0	0,498	4193,9	0,546	0,946	0,577
1979	8708,7	0,287	2502,5	9308,7	0,546	5078,6	0,493	0,936	0,527
1980	10077,3	0,303	3053,7	10871,4	0,550	5980,8	0,511	0,927	0,551
1981	11047,2	0,301	3327,4	11625,8	0,442	5144,1	0,647	0,950	0,681
1982	12527,4	0,289	3620,6	13021,5	0,412	5366,1	0,675	0,962	0,701
1983	13559,6	0,282	3830,5	13825,0	0,392	5414,6	0,707	0,981	0,721

## Key:

1. Official sources and own calculations; Sources: GDR Statistical yearbooks and pocket books; Federal Statistical Office, Wiesbaden, series 6, special series 6; UN Monthly Bulletin of Statistics; DABA Reports; own calculations.
- A. Source
- B. Turnover in million VM (valuta marks), GDR
- C. Exchange rate<sup>1</sup>, \$/VM, GDR
- D. Turnover, million \$, GDR
- E. Turnover, million DM, FRG
- F. Rate of exchange \$/DM, FRG
- G. Turnover, million \$, FRG
- H. Ratio

should be below the FRG report. If the GDR in its relations with the FRG would apply the same reporting criteria as in the trade with the other OECD countries, thus also include the services and the reexports or reimports, its report would have to be higher than that of the FRG.<sup>8</sup>

The undervaluation of the IDH fluctuated especially with the relative undervaluation by the GDR of the DM as compared to the other Western currencies.

Secondly, the undervaluation of the IDH results from the circumstance that the GDR transfers the IDH billed in DM with a 1 : 1 parity in VM of the GDR. This is tantamount to an undervaluation of the DM by the GDR. If the GDR were to convert the DM turnovers achieved in inner-German trade into VM according to the parity appropriate to the DM in the Western currency structure, it would have to report the IDH at a significantly higher figure, namely by the reciprocal value of the cross rate of exchange.

$$\frac{\$ \cdot \text{VM}}{\text{DM } \$}$$

(column 9). In 1979 that is the factor of  $1/0.527 = 1.878$ , in 1983, on account of the stronger dollar, still  $1/0.721 = 1.387$ . Based on the data of the FRG Federal Office of Statistics on the IDH and with parity-conforming valuation of the inner-German accounting unit, the report of the inner-German foreign-trade turnover in the GDR statistics in 1980 should have had to amount to more than twice, in 1983 about 1.5 times the actual report.

Political reasons are presumably the cause for the GDR to report its trade with the FRG with figures that are too low. Its effort for sovereignty and international recognition has always been accompanied by the effort to strictly delimit itself from the FRG--this by the way in every respect. Therefore the relations with the FRG, which are very modest measured by the technical-economic potential, are to appear to be even more insignificant than they really are.

#### C. GDR Trade With the Remaining Western Countries

Completely the opposite is true for other trade with the West. The GDR report on trade with the other capitalist countries dramatically exceeds the OECD report on its trade with the GDR. In tables 4 and 5 we compared the GDR trade with the capitalist industrial countries without IDH (=other Western countries) with the OECD report (not including the FRG) concerning their trade with the GDR. It is evident that the ratio of the GDR report--be it turnovers, exports or imports--to the OECD report is subject to very strong fluctuations and occasionally is more than double. In the long-term average the deviations in the case of the GDR imports are greater than for the exports<sup>9</sup> (Tables 4 and 5).

It is clear: since the data sets differ, the choice of the data base determines the judgment on the GDR-West trade. This applies to the level of exports, imports and trade balances and also to the rates of change of these figures.

Based on the GDR statistics, the exports to the OECD area from 1981 to 1983 grew 99 percent, imports, 15 percent. According to OECD data, exports stagnated, imports even declined 20.6 percent (all data on dollar basis). According to both statistics, the growth rates for exports are greater than for the imports, but according to GDR statistics the ratio of export to import growth is more favorable than according to the OECD data. This has its effect on the development of the GDR trade balance with the OECD countries: According to both sets of data

there has been a change of the balances from 1980 to 1983. According to GDR data, the balance improved by \$ 2.6 billion, but according to OECD data only by \$ 0.8 billion.

Table 4

Foreign Trade Turnover: Ratios of GDR to OECD Statistics

Quelle:	Umsatz Mio. VM (DDR)	Con. F \$/VM (DDR)	Umsatz Mio. \$ (DDR)	Umsatz Mio. \$ (OECD)	Relation (F) (3):(4)
(A)	(1) (B)	(2) (C)	(3) (D)	(4) (E)	(5)
1970	5606,0	0,238	1344,8	835,2	1,598
1971	5972,9	0,238	1422,2	917,3	1,550
1972	7221,0	0,258	1865,9	1442,1	1,634
1973	9968,9	0,287	2864,7	1416,4	2,022
1974	13793,4	0,287	3963,7	1954,8	2,028
1975	12782,6	0,287	3673,2	2165,3	1,696
1976	16850,0	0,287	4842,0	2383,7	2,031
1977	14037,7	0,287	4033,9	2327,9	1,733
1978	14031,0	0,287	4032,0	2902,9	1,389
1979	19571,3	0,287	5624,0	4037,4	1,393
1980	22882,7	0,303	6934,1	4579,0	1,514
1981	26794,1	0,301	8070,4	4688,0	1,721
1982	28317,5	0,289	8184,3	4073,0	2,009
1983	33593,3	0,282	9490,1	4386,0	2,164

Key:

1. Turnover of the GDR with the capitalist industrial countries (group report) less GDR turnover with the FRG and West Berlin. Source: Official GDR statistics and WIIW data bank.

A. Source

B. Turnover, million VM (GDR)

C. Conversion factor, \$/VM (GDR)

D. Turnover, million \$ (GDR)

E. Turnover, million \$ (OECD)

F. Ratio

What reasons can now be cited for the unusual extent of the discrepancy between GDR statistics and partner country statistics? This matter can be approached

Table 5

Ratio of GDR to OECD Statistics, Exports, Imports, Trade Balances, Changes,  
1981-1983

(Quelle:)	Exporte (B) (DDR) <sup>1</sup> Mio. \$ (A)	Exporte (C) (OECD) Mio. \$ (2)	Relation (D) (1):(2) (3)	Importe (E) (DDR) <sup>1</sup> Mio. \$ (4)	Importe (F) (OECD) Mio. \$ (5)	Relation (D) (4):(5) (6)	Exp.-Imp. Relation (3):(6) (G) (7)	Handels- bilanz (H) (1)-(4) Mio. \$ (8)	Handels- bilanz (H) (2)-(5) Mio. \$ (9)
1970	566,6	410,1	1,382	768,2	425,1	1,807	0,765	- 201,6	- 15,0
1971	578,1	426,0	1,357	844,1	491,3	1,718	0,790	- 266,0	- 65,3
1972	736,2	512,4	1,437	1129,7	629,7	1,794	0,801	- 393,6	-117,3
1973	1059,4	662,7	1,599	1805,3	753,7	2,395	0,667	- 745,9	- 91,0
1974	1583,6	956,1	1,656	2380,1	998,7	2,383	0,695	- 796,5	- 42,6
1975	1403,6	1035,9	1,355	2269,6	1129,4	2,010	0,674	- 866,0	- 93,5
1976	1754,0	1077,6	1,628	3088,0	1306,1	2,364	0,688	-1344,0	-228,5
1977	1414,8	1133,1	1,249	2619,1	1194,8	2,192	0,570	-1204,3	- 61,7
1978	1555,4	1411,5	1,102	2476,6	1491,4	1,661	0,664	- 921,2	- 79,9
1979	1901,4	1637,1	1,161	3722,6	2400,3	1,551	0,749	-1821,2	-763,2
1980	2605,9	2097,0	1,243	4328,0	2482,0	1,744	0,713	-1722,4	-385,0
1981	3713,4	2184,0	1,700	4356,9	2504,0	1,740	0,977	- 643,5	-320,0
1982	4452,1	2361,0	1,886	3732,2	1712,0	2,180	0,865	719,9	649,0
1983	5196,5	2415,0	2,152	4293,6	1971,0	2,178	0,988	902,9	444,0
			(I) Indizes (1980) = 1,00				(J) absolute Veränderungen 1983-1980		
1983	1,994	1,152	1,732	0,992	0,794	1,249	1,386	2624,4	829,0

## Key:

1. GDR exports to OECD = GDR exports to the West less GDR exports to the FRG. The latter were estimated as follows:

$\frac{\text{IDH turnover (GDR)}}{\text{IDH turnover (FRG)}} \cdot \text{imports of the FRG from the GDR}$ . Correspondingly  
for imports.

Sources: Official GDR and OECD statistics, own calculations.

- |   |                     |
|---|---------------------|
| A. Source                                   | I. Indices          |
| B. Exports, (GDR) <sup>1</sup> , million \$ | J. Absolute changes |
| C. Exports (OECD), million \$               |                     |
| D. Ratio                                    |                     |
| E. Imports (GDR) <sup>1</sup> million \$    |                     |
| F. Imports (OECD), million \$               |                     |
| G. Export-import ratio                      |                     |
| H. Trade balance                            |                     |

from two different sides, from the hypothesis that the GDR data are too high or the OECD data too low (or a combination of these possibilities). Hardly any insights can be gained from the very sparse information released by the GDR. A rejection with the blanket assertion that the data are incorrect would be scientifically dubious. On the other hand, the West offers a great deal of data. Since the rules for preparing them are more precisely known--which is part of honest dealing with data--their shortcomings are also known more precisely.

If the initially mentioned reasons to explain the deviations are applied, we can start from the assumption that for the GDR imports from the OECD area the GDR report ought to be higher than the OECD report. For the GDR reports according to the principle of the general trade (imports including reimports and transit transactions) and moreover includes so-called productive services. In the case of the GDR exports, the difference between GDR and Western data ought to be smaller than in the case of the imports, because the GDR values its exports according to fob, while the OECD values its imports according to cif. It can be assumed that the fob-cif differences are not inconsiderable because the GDR does not directly border on any OECD country. (The FRG is not considered as an OECD country here.) Discrepancies could also be ascertained in the trade of the other East European countries with the West: however, the discrepancies there were on a much more modest scale. The extraordinarily large deviations therefore must be traceable to extraordinary reasons.

The author considers here four possibilities (not all of whose effects, however, have to be accounted for with a positive sign).

1. The simplest though not provable assertion would be that the GDR import, but especially the export, data are plainly too high.

A weak indication of a possibly too high GDR report is offered by an examination of the consistency. We compared the GDR group report with the total on the turnover in trade with all individual Western industrial countries (to the extent published by the GDR): In the period 1970-1983, the turnover total was 10 to 20 percent below the GDR group report (Table 6). By including Ireland and New Zealand, which are not reported on by the GDR, the difference would be reduced at best by one percentage point. What about the remainder? Moreover there appears to be a connection between the discrepancy of total and group report and the ratio between GDR and OECD report: The discrepancy between group and total report has considerably increased since 1980; at the same time the ratio between GDR and OECD report grew in excess of the mutual turnover from 1.51 to 2.16 (Table 4, column 5).<sup>10</sup>

It is also possible that the exchange rates used for the conversion of the GDR trade with the OECD countries are incorrect. Wharton assumes that the GDR agencies converted the transactions processed in French francs, British pound sterling and other currencies at rates which would be kept constant over a certain period.<sup>11</sup> If these rates differ a great deal from the official exchange rates, the commandment of the transitivity in the conversion of Western currencies into GDR VM and the latter into dollars would be systematically violated.

Table 6

## GDR Foreign Trade Turnovers With Capitalist Industrial Countries

In Million VM

Year	Summenausweis	Gruppenausweis	Relation
	Mio. VM (1)	Mio. VM (2)	in % (3)
1970	8476,0	9656,0	87,88
1971	9304,1	10267,5	90,62
1972	10810,6	12048,7	89,72
1973	12349,5	14904,1	82,86
1974	17027,3	19790,7	86,04
1975	16968,3	19294,7	87,94
1976	21993,4	24208,1	90,85
1977	19792,8	21758,4	90,97
1978	20120,9	22005,4	91,44
1979	25365,5	28283,4	89,68
1980	29376,9	32959,8	89,13
1981	32313,3	37840,7	85,39
1982	33681,8	40844,9	82,46
1983	39392,8	47156,6	83,54

## Key:

1. Total report, million VM
2. Group report, million VM
3. Ratio in %

Sources: GDR statistical yearbooks and pocket books; own calculations.

2. On the other hand, the question must be asked whether or not the OECD data are too low. Actually, the United States delivered grain to the GDR via the FRG in the 70's, which is recorded neither as export of the United States nor of the FRG to the GDR, but has probably been recorded as GDR import. For this reason the GDR import figures exceeded the corresponding OECD data. U.S. grain transshipments reached their highest point in 1976 with a total of \$ 354.7 million. With the reduction of the GDR grain imports since the end of the 70's, the probability for mistakes of this kind has, however, declined, while the statistical discrepancies for GDR imports have further increased.<sup>12</sup>

It is possible that there are also weak points in the recording of crude oil and oil production imports of the West from the GDR. Among other things, it is not certain whether the total GDR oil sales in the West (e.g., Rotterdam) are statistically recorded. Starting from all available GDR data (on energy balances) of CEMA and the West (on exports and imports), there are missing

quantities of 3.0-3.5 million tons for the years 1980-1983, which correspond to an additional export income estimated at \$ 630-670 million that at any rate are not included in the Western statistics.<sup>13</sup>

3. One of the causes of the distortion here and also in other transit and triangular transactions could be the IDH, which is not completely hermetically separated from other West transactions. It is known that the GDR exports sizable quantities of goods to Western Europe via West Germany to Common Market countries to circumvent customs duties and quantity restrictions as well as to permit the impression to arise that some of these goods are produced in West Germany and thus to profit from higher prices and also West German experience in the field of marketing. The purchasing countries, according to Wharton, record these goods not as imports from the GDR but as imports from the FRG. Moreover, some factors indicate that West Germany treats these exports as transit and does not record them as imports from the GDR (in the IDH statistics). Therefore a considerable amount of GDR exports to Western Europe "disappears" and then reappears as import from West Germany (but without being appropriately recorded in the West German export statistics).<sup>14</sup>

According to this version, the GDR exports to Western Europe are included in the GDR statistics as West exports but not in the OECD statistics as imports from the GDR (but probably from the FRG). According to this explanation, the FRG acts as a secret commission agent for GDR goods.

This assertion lacks an empirical basis for the following reasons: First of all, practices of this kind would violate the "Protocol on Inner-German Trade and the Questions Connected Therewith" signed by the EEC founding states in 1957, in which the FRG obligated itself not to purchase any goods of foreign origin from the GDR and also not to pass on any GDR goods to other EC countries (exceptions require a special agreement). (In 1969 only about one percent of the FRG deliveries from the GDR were passed on to other EC states).<sup>15</sup> Secondly, the IDH report of the FRG and of the GDR has approximately the same dimension. If Wharton were right, the illegal third country transactions would have to have been agreed to by the FRG and GDR authorities. Thirdly, the IDH transactions are recorded by two West German institutions according to different criteria, which makes concealing illegal operations much more difficult.<sup>16</sup> Fourthly, apart from the fact that it is hardly in the FRG interest to promote the economic relations between the GDR and third countries, EC treaty regulations, the political sensitivity of the German-German relations and not least also the growing distrust of the EC partners make such machinations rather improbable. Sizable transactions of this kind therefore are out of the question.<sup>17</sup>

4. The only "reliable" factor by which at least part of the extraordinarily great discrepancy between the statistics could be explained are extensive GDR deliveries and purchases to and from the developing countries, which are recorded by Western countries only as transit transactions.<sup>18</sup> If this were the case, the GDR turnover reports in the trade with the developing countries ought to be clearly less than the cumulative turnover which the developing countries report in their trade with the GDR. Then the excess of the GDR report in relation to the OECD data would be confronted by a gap of the GDR report in comparison to the report of the developing countries. But this assumption does not find any support either in the available statistical material.

The turnover which the GDR reports in the trade with a large group of developing countries corresponds almost exactly to the turnover which these countries report in the trade with the GDR. For example, for the year 1981--more recent data are still very incomplete--19 developing countries report turnover with the GDR amounting to a total of \$ 887.8 million, while the turnover of the GDR with these developing countries amounted to \$ 881.1 million.<sup>19</sup> However, this does not prove either--in a strictly scientific sense--that the GDR data in trade with the OECD countries are too high because it cannot be definitely excluded that those transit trade flows from the developing countries are not being recorded as exports to and imports from the Western countries. In view of the enormous and growing discrepancies between GDR and OECD statistics--in 1983 the turnover difference amounted to more than \$ 4 billion--it is difficult to assume that this difference could be explained by factors which are responsible for discrepancies between trade and partner country statistics usual in East-West trade.

#### D. Concluding Thoughts

As has been demonstrated in other studies, the quantity of the foreign trade statistics published by the GDR defies every international norm. The GDR is an outsider even among the other CEMA countries: Even though most highly industrialized, it has the most meager foreign trade reporting of all European CEMA member countries. But not only the quantity but also the quality of the data has already been deplored in past studies.<sup>20</sup> This study has proved that the quality of the data has actually considerably worsened in recent years. The resumption of reporting some important basic data, such as exports to and imports from the group of socialist and nonsocialist countries, did meet a need of the interested public, but has aroused new doubts as to the reliability of the GDR data.

In summary it can be said that

- the GDR clearly undervalues the inner-German trade (it continues to be undervalued even though the value of the dollar has very greatly increased against the DM in recent years);
- the level of the relations to the OECD countries according to the GDR statistics appears to be higher than it really is;
- the GDR trade balance surplus in relation to the OECD area according to GDR figures since 1982 has been considerably higher than according to the OECD mirror statistics, while the situation had been reversed in previous years;
- the trade balance according to GDR data improved by an estimated \$2.6 billion since 1980, while according to OECD an improvement of only \$ 0.8 billion is ascertainable;
- part of the discrepancies can possibly be ascribed to the increasing transit trade transactions.

This is an unsatisfactory condition that requires clarification. It is to be hoped that OECD and FRG organs will make a contribution in this respect by a

review and possible correction of their data. Above all it would be desirable if the GDR in its information policy in foreign trade (and also in other areas) would orient itself along internationally customary norms that the GDR itself promised to adhere to in international agreements (Helsinki 1975, basket 2).

#### FOOTNOTES

The author thanks the assistant professors Dr. G. Fink and Dr. J. Stankovsky for suggestions and critical remarks.

1. For a. to c., see P. Marer, "Toward a Solution of the Mirror Statistics Puzzle in East-West Commerce," in F. Levčík (publisher) "International Economics--Comparisons and Interdependencies," Studies on Economic and System Comparisons, Vol 9, pp 383-436.
2. The data of the Austrian general trade (statistics according to trading country) with the GDR differ only slightly from those of the special trade (statistics according to countries of origin and destination), whereby the deviations once are positive, another time negative.
3. Such weighting is to be distinguished from so-called directional coefficients. Directional coefficients convert foreign exchange receipts (expenditures) into the internal currency concerned. They are an instrument of foreign trade policy and have the function of making domestic and foreign trade results comparable for the enterprise.
4. See M. Haendcke-Hoppe, "The GDR Foreign Trade Statistics and Their Information Value, FS ANALYSEN, 1978/3, p 24.
5. These differences can be reduced to a tolerable extent for some Western countries by including general trade data (trading country statistics) by means of the transit trade. By using corresponding Austrian data, the ratios between the turnover reports of the GDR and Austria can be reduced from 2.09 to 1.44 in 1981, from 2.27 to 1.47 in 1982 and from 2.62 to 1.13 in 1983. However, it is impossible to make such corrections for the entire Western area in view of the existing data situation. For, first of all these data are being kept completely secret by many countries, secondly the transit country trade data would have to be cross classified to avoid double countings.
6. B. Askanas, G. Fink and F. Levčík, "East-West Trade and Indebtedness of Individual CMEA Countries up to 1990," Part II of "East-West Trade and CMEA Indebtedness in the Seventies and Eighties," special reprint from: PERSPEKTIVEN-BERICHTE-ANALYSEN DER ZENTRALSPARKASSE UND KOMMERZIALBANK, Vienna, Oct 80.
7. For a review on quality and quantity of the GDR foreign trade statistics, see M. Haendcke-Hoppe, "The GDR Foreign Trade Statistics and Their Information Value, FS-ANALYSEN, 1978/23.

8. In the FRG the IDH is compiled by two different sources, namely by the Federal Statistical Office (Wiesbaden) whose data were used in Table 3 and by the Federal Ministry for Economics (Bonn). Deliveries and purchases according to data of the Ministry for Economics include services and therefore regularly surpass the data of the Federal Statistical Office, which do not include any services but they do include replacement deliveries as well as, in the case of contract processing work, the entire value of the commodities (and not only the value of the contract processing work). The difference between export and import data of the two sources in recent years amounted to up to 10 percent. The statistics, which are compiled independently of one another, differ in methodological respect in several points. See in this connection: H. Heinrich, "1983 Trade With the GDR and Berlin (East)," WIRTSCHAFT UND STATISTIK, 3/1984, p 253; H. Lambrecht, "Inner-German Trade--Development, Commodity Structure, Economic Importance," in C.-D. Ehlermann et al. (publisher) "Trade Partner GDR--Inner-German Economic Relations," Nomos Publishing Company, Baden-Baden, 1975, p 92.
9. See also M. Haendcke-Hoppe, "The GDR Foreign Trade Statistics...", op.cit. (Footnote 4)
10. Maria Haendcke-Hoppe believes that the difference between group and country report is a hidden compensation for the undervaluation of the German-German trade (FS-ANALYSEN 1982/7, Berlin, p 75). If the GDR actually increases the group report in trade with the capitalist industrial countries by the amount that corresponds to the undervaluation of the IDH, this would of course be completely incorrect. However, it should be noted that the discrepancies between total and group report increased even though with the upward revaluation of the dollar in relation to the DM the undervaluation of the IDH by the GDR declined. (cf. p 000).
11. Wharton Econometric Forecasting Associates, "Centrally Planned Economies Current Analysis, 1982/94," 26 Nov.
12. M. Haendcke-Hoppe, "Extreme Efforts in GDR Foreign Trade," in FS-ANALYSEN, 1982/7, p 74; "U.S. Foreign Agricultural Trade Statistical Report USDA/ESCS."
13. The calculations by W. Stinglwagner, "Export Potential of the GDR in the Petroleum Area," All-German Institute, 1984/15 are, however, based on the tacit assumption that the GDR energy balance is correct.
14. Wharton EFA, "East German Trade Performance in 1983," 23 Jul 84, No. 55-56.
15. R. Biskup, "Germany's Open Trade Group, The GDR as Beneficiary of the EEC Protocol on Inner-German Trade," Verlag Ullstein GmbH, Berlin 1976, p 28.
16. Cf. Footnote 5.

17. The GDR reportedly is said to have concluded more third party transactions recently through dealers located in the FRG. Thus there are rumors among other things of steel imports of the GDR from the FRG and the resale to third countries (presumably developing countries). On the other hand, FRG transit traders are active in the marketing of GDR goods. If the two German states are not at the same time country of origin and country of destination, the goods are not recorded in the inner-German statistics. It is unknown how these flows are recorded by the GDR or by developing countries. In the case of triangular transactions among the GDR, the FRG, and other OECD countries, one may by and large start from the assumption that these transactions are properly recorded (see also the following footnote).
18. Thus, e.g., it is known that the GDR delivers cement as barter goods to the Voest-Alpine Austria, which the latter uses at its construction sites in the Near East. For the GDR it is export to Austria because Austria pays. For Austria it is a classical transit transaction which does not affect its trade statistics. There are parallels in the relations of the GDR also with other OECD countries. According to OECD data, e.g., the Japanese imports from the GDR amount to only about one tenth to one fifth of Japan's exports to the GDR. If the transit transactions are included, the GDR pays according to Japanese data about one half of its imports with deliveries to Japan, which are resold by Japanese trading firms.
19. This is barely half of the turnover with developing countries reported by the GDR (total turnovers in 1981, 6,085.8 million VM or \$ 1,970.4 million). What is involved are the OPEC countries: Algeria, Indonesia, Kuwait, and Libya and non-OPEC countries: Argentina, Brazil, Colombia, Egypt, Ethiopia, India, Malaysia, Morocco, Nicaragua, Pakistan, Sri Lanka, Tanzania, Sudan, Tunisia, and Cyprus. Source: UN Data bank of the Austrian Institute for Economic Research.
20. See M. Haendcke-Hoppe, "The GDR Foreign Trade Statistics...", op. cit. (Footnote 4); Wharton EFA, East German Foreign Trade Performance in 1983; 1984/55-56; op. cit., East German Foreign Trade Performance in 1982, 1983/27.

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GERMAN DEMOCRATIC REPUBLIC

AGRICULTURE MINISTER BASES NEW PRODUCTION GOALS ON 1984 YIELD

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[Article by Bruno Lietz, member of SED Central Committee, Minister for Agriculture, Forestry and Foodstuffs: "Tasks to Fulfill and Surpass the Economic Plan 1984 in Agriculture"]

[Text] The year 1985 is of decisive importance for all of us. It is our task to employ all of our intellectual and material potential very effectively in worthy preparation of the 11th SED Party Congress. Simultaneously, we are commemorating, as a significant anniversary in the history of our people, the 40th anniversary of the victory of the Soviet Union over Hitler Fascism and the liberation of the German people from Nazi rule. A further societal climax, particularly in the life of our cooperative farmers, will be the 40th anniversary of our democratic land reform.

From an economic viewpoint, also, the year 1985 is of particular importance. In these coming weeks and months, fulfillment of the current 5-year plan and the successful start of the 5-year plan period of 1986-1990 will be decided. The core of the 1985 economic plan is supplying people with foodstuffs, and industry with raw materials--and to a larger extent than up to now, from our own output. In this context, the following tasks must be accomplished:

--In plant production, at least 46.3 quintals of GE [grain units] per hectare LN [agricultural area] must be attained as the republic's average. Compared to the average of 1981-1984, this constitutes an increase of 2.4 quintals, or 5.5 percent, respectively. It should be our competitive goal to surpass the planned grain unit production by 0.5 quintals per hectare. This means attaining higher yields in all cultivation than provided by the plan. This demand and goal of higher grain unit yields means that plant production must increase more rapidly than animal production in order to fulfill the tasks of replacing fodder grain imports. In the case of grain, a GDR average yield of at least 41.9 quintals per hectare, and a total production of 10.7 million tons, must be achieved.

--In animal production, the planned state output provides for 2.54 million tons of animals for slaughter, 7.05 million tons of milk, 4.8 billion eggs, and 7,000 tons of sheep's wool. Especially in the case of milk and wool, the goal should be to surpass the planned figures through socialist competition. However, the production of animals for slaughter is the absolute priority. Compared to the 1984 plan, the necessary increase amounts of 140,000 tons, or 3.3 percent. This absolutely demands a further lowering of fodder consumption per production unit by at least 1 percent, which means a gain of about 250,000 tons of grain units.

--In the foodstuffs industry, agricultural raw materials must be processed and refined with ever increasing effectiveness in order to achieve a high rate of supply efficacy. The state scope of industrial goods production amounts to M 32.3 billion.

--The tasks of exporting seeds and plants, breeding stock, sugar, animal products and raw materials, respectively, must be fulfilled on time and in the highest quality in order to strengthen our republic's economic power.

--It is the duty of those working in forestry to deliver 10.1 million cubic meters of lumber in 1985. Extensive measures must be carried out to ensure security of production and yield, and to keep the forests tended and healthy.

--With regard to making available important material funds for plant production, they will be increased compared to the actual figures for 1984.

--In all areas of the agriculture, forestry and foodstuffs industry, the battle to lower production consumption must be further stepped up, particularly through increased economy in the use of material, energy, basic assets, and transport. In this manner, the necessary performance growth is reliably ensured with available funds, and the contribution of agriculture to the national income increased.

Those are the minimum goals set for the agriculture, forestry and foodstuffs industry in 1985, the fulfillment and surpassing of which are of extraordinary importance for the further strengthening of the GDR. As comrade Erich Honecker demonstrated in the Politburo's report to the ninth session of the SED Central Committee, agriculture, with its good results in 1984, created essential production bases for 1985. It must be the duty of all of us to utilize them to a high degree for the fulfillment and surpassing of the national economic plan. At the center of this obligation stand more effective management of the reproduction process of plant and animal production, the deepening of cooperation, and the development of initiatives by all cooperative farmers and workers.

In 1984, significant progress was achieved in plant production. A gross turnover of 48.5 quintals of grain units per hectare of agricultural area has, so far, been the highest yield. In grain production, the 40 quintals level per hectare was surpassed for the first time. Potatoes were harvested at a rate of almost 240 quintals per hectare. Fields, meadows as well as annual and perennial field fodder, also showed the highest yields to date. Agricultural producer cooperatives [LPGs] and state farms

[VEGs] such as Ringleben, Schwaneberg, Hadmersleben, Mockern, Plate, Lindenberg, Kalkhorst, Falkenwalde and Bottmersdorf, just to cite a few, are proof that under GDR conditions, yields can be obtained which help determine the international peak performance level.

It is noteworthy that in 1984, 34.1 grain units of animal products per hectare were produced on a domestic fodder base, which corresponds to an increase of 112.5 percent compared to the average for the years 1981-1983. The yields in milk production must be stressed in particular. The increase of 433 kt, compared to the previous year, was achieved exclusively through productivity increase per cow.

These performances in plant and animal production, significantly higher than in previous years and surpassing the 1984 plan, and supported and fostered by the effectiveness of the agricultural price reform, have led to considerably higher financial results. This brings economic benefits not only for the LPGs and VEGs, but also for individuals. This is demonstrated by the growth of personal incomes as well as by expanded financial possibilities for planned improvement of working and living conditions in the agricultural producer cooperatives, the state farms, and their villages.

What Basic Lessons Are to Be Learned from the Year 1984?

1. The year 1984 has demonstrated in particular the constantly growing importance of working with people, with the work collectives. With the proper motivation and attitude, factory collectives, departments and brigades are capable of high productivity. In the organization of plant and animal production, we have reached a level where necessity as well as the possibility exists for making the subjective factor a determining production factor. The focus is on working out demanding plans down to the smallest work collective, and on managing competition.

It cannot be overlooked that most progress was made by those LPGs and VEGs which have further perfected application of the territorial principle, the close connection of production place and village according to their conditions. Under these circumstances, more room was given to the greater personal development of cooperative farmers and workers, and the production and work processes are more readily grasped. The direct connection between work performance, yield, and material interest has become clearer. This is obviously the way to utilize, better than heretofore, the great potential of knowledge and ability of our cooperative farmers and workers.

2. We have succeeded in taking a large step in the direction of fund-saving intensification by a wider use of WTF [wissenschaftlich-technischer Fortschritt = scientific-technical progress]. Decisive bases were the resolutions of party and state leadership, particularly with reference to  
--perfecting the managing, planning and economic accounting in agriculture,  
--further deepening of cooperation,  
--implementing the agrarian price reform,  
--utilizing all irrigation possibilities, and  
--ensuring animal production and radical lowering of animal losses.

In 1985, the resolutions must be implemented even more persistently and their wealth exploited by every management and work collective, by every farmer and worker of cooperatives. An important link is the fact that in many LPGs and VEGs, the concepts of peak yield and peak performance were made the basis of production and work organization. By adapting them to each individual field and to each individual stable, intensification factors can be applied "as needed," as it were. These concepts serve as guidelines for planning, accounting, and material interest. This is also true for making effective the WTF measures overall, utilizing specific conditions.

3. By deepening cooperation, and through firmer application of the proven principles of SBW [socialist business management], the agricultural reproduction process was better mastered. It was not "fair weather" which primarily led to high yields and performance, but rather the fact that management and work collectives were better able to use periods of favorable weather for high production, and to counteract the influence of less favorable periods.

The year 1984 demonstrated more clearly than ever that effective implementation of the agricultural reproduction process depends, to a large degree, on the close linking of biological and economic processes. Again, it became clear that it is decisive not to underestimate any work, dates, agrobiological and zoological measures, or quality demands. Even greater attention to the scientific and economic factors of good management, together with societal and socio-economic factors, is the road to a rapid increase of production and effectiveness.

4. The past year has again confirmed that the domestic agricultural product must grow more rapidly than total production. Priority is on the development of plant production, and the efficiency of animal production, particularly use of fodder, must be increased.

With growing total production, we want to lower noticeably consumption by production. This is the unerring yardstick of fund-saving intensification. The development of our republic is characterized by rising production, and the material resources for it must come, to a large degree, from lowering specific consumption by production.

What is lastly needed is a faster development of the net product versus the gross product. This is the concentrated expression of higher effectiveness through improvement of the ratio of expenditure and result.

In summary, developments during 1984 let us draw the conclusion that in the long term, a stable and continuous development of yields and performance is possible with the available funds, if qualitative growth factors are fully used. With the help of our agricultural science, total scientific permeation of the entire production and reproduction process takes on extraordinary importance.

What is Needed for the Continued Development of Yields and Performance in Our Agriculture?

The priority tasks in 1985 consist in further increasing and stabilizing the yields of plant production. This concerns in particular grain, potatoes, sugar beets, oil-producing plants, fodder, as well as fruit and vegetables.

On a national average, the economic plan is based on the following yields per hectare:

Grain, 41.9 quintals; potatoes, 220 quintals; sugar beets, 340 quintals; oleaginous plants, 24 quintals; silo corn, 340 quintals; grassland, 308 quintals; annual and perennial field fodder plants, 392 quintals.

These are the minimum performances required in order to attain the planned national average of 46.3 grain units per hectare of agricultural area. In our work, we proceed from the premise that the yield increase in plant production with lower specific consumption by production, needed by our society, is based on efficient use and systematic improvement of the soil's yield potential. Of decisive importance is, above all, the harmonious development of soil fertility which determines performance. The ideal values of soil fertility, established by agricultural science for various, differing locations, offer a new qualitative base. Their determined use requires the creation of preconditions in all LPGs and VEGs so that the complex processes for increasing soil fertility and yields can be introduced. This means an accelerated application of the knowledge and norms based on average location mapping to individual fields, and planning and coordinating effective combinations of measures relating to cultivation, plant growing and soil improvement for the period of at least one crop rotation. This work promotes further perfecting of field-related peak yield concepts.

What is especially needed to increase soil fertility?

1. The focal point is the utilization of all reserves for increased supply with organic substances according to the requirements of the humus balance, as related to crop rotation and specific location. On the GDR average, we only attain 87 percent of the need at present. Reservations still extant in some quarters with regard to the relationship between goods and money in the dry and liquid fertilizer business should be relegated to the past.
2. In conjunction with implementing the territorial principle, creating appropriate field sizes which should correspond still better to natural conditions, and in perfecting the structure of cultivation, work must be continued in introducing crop rotation based on scientific findings.
3. Further points of emphasis continue to be the raising of agrotechnical discipline and the quality of all field work, as well as holding down damage which afflicts about one-third of our fields. The findings of science and practical experience show that, with available technologies and machinery, we have more possibilities for careful soil cultivation than are presently used in many LPGs and VEGs.

4. In the further implementation of fund-saving intensification, the high-yield use of mineral fertilizers naturally occupies a special place. Between 1980-1984, specific consumption of mineral fertilizers was reduced by 28 percent per quintal grain unit, and the percentage of agriculturally produced fertilizers in the nutrient balance clearly rose. Applying scientific knowhow, and the increased responsibility of the agro-chemical center [ACZ], have advanced us quite a bit. Now our efforts must be directed at

--consistent implementation of the recommendations relating to fertilizing specific areas, as well as applying the results of the nitrogen analysis of the soil and the fast nitrate test;

--ever better guarantees of a harmonious effect of organic and mineral fertilization;

--measures to lower losses and to improve the quality of application.

In grain production, greatest discipline must be ensured with regard to sowing time, extent of cultivation, and quality work. An experience of the previous year shows that N-fertilization of grain must definitely be staggered further. This contributes to continuous nutrient supply until the ripening period of the grain. The amount of yield was also significantly determined by the use of fungicides.

The growth in the potato crop is considerable. It created good starting positions for immediate targeting of 300 quintals as the national average. That such possibilities exist is shown by the Kreise of Querfurt, Hohenmoelsen, Eisleben, Glauchau, Oschatz, Borna, Zeitz, Delitzsch, Goerlitz-Land, Meissen, Riesa, Rosslau, which on the average harvested more than 300 dt. Overall, there are 102 LPGs and VEGs in our republic which have higher yields than that.

In the case of sugar beets, 321 quintals per hectare is not satisfactory compared to international results. But even these 321 quintals with good sugar content have shown what possibilities exist for additional fodder. For this reason, we think that the short-term goal of reaching 400 quintals is realistic. LPGs such as Bottmersdorf, Striegnitz, Ziltendorf, Gamstaedt, Bockwen and Barnstaedt, a total of 23 LPGs and VEGs, which harvested more than 400 quintals of sugar beets per hectare, lead the way. The following tasks merit greater attention:

--observance of non-cultivation every four years;

--husking twice after preceding crop of grain;

--early seeding to ensure a growth period of 175 days;

--three machine hoeings, and implementation of scientific stock keeping.

In 1984, good results were obtained especially where cultivation was carried out in fields with balanced soil conditions and where quality was stressed in turnip cultivation. The advantages of the territorial principle, and the use of experts from the villages concerned, are felt particularly in the tending of sugar beets.

In conjunction with tasks posed by the rapid expansion of colza production, we held thorough consultations with experienced colza farmers and scientists

on the results of the 1984 harvest, and we initiated the necessary governmental action. It was reaffirmed that in the cultivation of colza, whether type Sollux or Marinus, intensive cultivation, observance of agrotechnical dates, and quality work are decisive for well-developed crops and high yield.

In the production of roughage fodder, we must pay even more attention to the 1.2 million hectares of meadows and grazing lands. In the past year, high-yield concepts for specific areas existed only for 67 percent of the grasslands. This gap must be closed. It is not a matter of formal elaboration of high-yield concepts, but working with them creatively and consistently.

In vegetable production, the economic plan for 1985 provides for a yield of 1.41 tons, which constitutes an increase of 108 percent over the average of the past 5 years. This is an eminently important task, requiring purposeful activities in every bezirk, kreis, and community. In the case of certain vegetable types, such as tomatoes, beans and cucumbers, further increase and stabilization of production is needed, which must be stressed in particular for the bezirks of Cottbus, Mageberg, Erfurt, Frankfurt (Oder), Dresden, and Potsdam. To ensure the plan tasks, we are focusing on precise planning of cultivation areas with a view to secure yields, and on irrigation of all areas of vegetable cultivation.

We must progress more rapidly than up to now in reaching self-sufficiency in vegetable production of the bezirks, kreises, and villages. The many initiatives of all involved, especially the members of VKSK [Union of Small Gardeners, Settlers, and Small Livestock Breeders], must be better utilized. Extensive steps should also be taken to further expand the first processing phase for vegetables and fruit.

The responsibility of the VVB enterprises [VVB= association of state enterprises] Seeds and Plants is of increasingly greater strategic importance for the fundamental tasks of increasing the yield of all cultures. In line with the progress achieved, it is a matter of ensuring stable production at all times and making available high-quality seeds and plants, on a timely basis and as needed, to the agricultural producer cooperatives, horticultural producer cooperatives, state farms, and small producers. The seed and plant production of vegetable seeds and important fodder cultures particularly must be stabilized and improved in quality. It is the duty of all concerned, supported by the Association of State Enterprises and the Academy of Agricultural Sciences, to rapidly translate breeding progress into higher yield.

Our obligation to open up 300,000 hectares of land for irrigation in 1984, was fulfilled on the basis of a broad mass initiative by the LPGs, VEGs, cooperative institutions, and with the support of enterprises and institutions from other sectors of the economy. Building on the results of 1984, the irrigation program is to be continued purposefully until the 11th SED Party Congress. It is our goal to open up for irrigation an additional 250,000 hectares by April 1986, employing efficiency measures. The next

steps will be to continue working on simple solutions in the agricultural producer cooperatives and state farms, with the help of melioration cooperatives and agricultural and melioration enterprises. We must also study, together with the enterprises and institutions of water supply and distribution, geology, and industry, what possibilities for irrigation exist with the least possible expenditure. We also consider it useful to work out, with even greater participation of the Peasant Mutual Aid Association, the Union of Small Gardeners, Settlers, and Small Livestock breeders, and local enterprises in all communities, kreises and bezirks, accountable programs for expansion of irrigation areas to be submitted to the people's representatives for action. The initiatives of the FDJ [Free German Youth] will again be of great benefit in the implementation of these programs. Consider that, in 1984, about 40 percent of the total of reconstructed or newly created irrigation areas were achieved within the framework of the youth project, "Irrigation."

No matter whether we are dealing with irrigation, harvesting, increased animal production or improved fodder economy, our youth always work successfully at the focal points of agriculture.

On the basis of results of the rural youth congress, it is now necessary to continue fostering and promoting the productivity and creativity of our youth everywhere. The remarkable plans of the "Ernst Thaelmann unit of the FDJ" for preparing the 11th Party Congress have the support of all of us. It is now a matter of establishing new youth brigades and youth projects, and implementing the goal of involving at least 50 percent of all youngsters in the movement "Fair of Tomorrow's Masters." In this matter, we shall inject even greater vitality, in every LPG and every state enterprise, into the principle of our socialist youth policy, i.e., to place trust in, and to delegate high responsibility to, our youth.

Increasing and stabilizing the yields in plant production, and lowering storage losses, demand that we further increase the effectiveness of plant protection. The losses caused by pests amount to about 15-20 percent. Lowering it by even 1 percent would mean a gain of 500,000 grain units. Strict management of plant protection at all levels is more urgent than ever. The experience of our veterinary system should be used purposefully. Just as our LPGs and VEGs are concerned today with the health and protection of each and every cow and pig, the same concern must be for every plant and its fruit. In order to place much greater emphasis on plant protection, to further expand plant sanitation control in particular, and to ensure the most effective countermeasures in good time, it is also necessary to greatly strengthen the authority and enforcement capability of plant protection agronomists in the enterprises.

In connection with plant protection, and the use of chemicals in general, it must be stressed that, in spite of pointing out the need for them, not as many chemicals as possible must be used, but as many as necessary. We must better utilize agro-technical and biological means to achieve healthy and weed-free stands of plants. This is also important from an ecological viewpoint.

## Regarding the Tasks in Animal Production

In animal production we are concerned with attaining high yields with stable numbers of livestock and increasing fodder production, and with lowering specific fodder consumption. The economic plan is based on the following yields of the national average:

Milk per cow	3,593 kg
Pigs for slaughter, per animal of x-stock	131.5 kg
Beef cattle, per animal of initial stock	118 kg
Wool per sheep of initial stock	2.8 kg
Eggs per hen	211
Piglets raised, per sow	2.5
Calves raised, per 100 cows	102

To fulfill these tasks, we will continue measures proven in practice, and link up more closely with the WTF. Above all, this also means quick elimination of unjustified yield differences between comparable LPGs and VEGs, and between stables. The fulcrum must be concentration of strength and funds on accelerating the transition to fund-saving intensification. For this reason, work dealing with concepts of highest yields as relating to stables must be better and more meaningfully organized. Good results are obtained where the animal handlers are included in the elaboration of the concept of highest yields of their stable.

One of the priority tasks is that of lowering specific fodder consumption. It has high strategic importance. It is understandable that the higher level of fodder economy, and the level reached in animal stocks, requires greater effort toward lowering specific fodder consumption. Goals should be established, and the necessary measures should be pinpointed according to even more thorough attention to the different situations in every animal production plant and every cooperative. Improvement of the fodder economy can be achieved mainly through increased animal productivity. Every increase in animal productivity brings about further economic advantages, especially with regard to saving funds, including basic fund reproduction and higher work productivity.

We must continue work on increasing the share of self-produced fodder in the LPGs and VEGs of every production cooperation in order to ensure the fodder supply. The decisions of the Politburo and the Council of Ministers concerning deepening of production cooperation are having significant effects in this regard. Practitioners say that, as plant producers, they have always supplied sufficient fodder. But now coordination of interests is taking place within the framework of production cooperation, and this gives rise to new and more thorough considerations and actions in perfecting

the structure of fodder cultivation, the quality of fodder, etc. This is of decisive importance, since the amount and quality of fodder production decides to a large degree the total results of plant and animal production. Such an approach goes right to the heart of the matter. Our concern is now with better use of the internal possibilities of the LPGs and VEGs in production cooperation, and utilization of qualitative growth factors.

In some cases, there are still problems with ensuring the fodder supply of large animal production installations in locally managed agriculture. Since frequently the territory of a production cooperation, or of a kreis, does not possess the required means, it is necessary that the bezirk councils take a stronger hand in the management and organization of this process. For this reason, we support the establishment of funds for fodder, already being practiced successfully. We are also in favor of giving a share of the profit to those LPGs and VEGs which supply the fodder. This approach supports economical treatment of concentrate fodder and ensures the production of installations operating effectively. Our calculations show that profit-sharing of about 15 to 20 marks per grain unit of concentrate fodder is an appropriate amount. Establishing direct contacts between partners is of mutual benefit. We also consider it necessary that the councils of bezirks, kreises and production cooperations, as well as the managements of LPGs and VEGs, work toward long-term solutions by firmly using the possibilities of local conditions.

In lowering animal losses, the norms established in the 1984 plan were achieved, with the exception of young pigs. Progress made with regard to young pigs is insufficient in the bezirks of Halle, Leipzig, Neubrandenburg and Rostock; in the case of calves, in Neubrandenburg, Halle, and Potsdam.

It is evident that, despite good results overall, there still exist considerable differences between stable collectives of all bezirks concerning the lowering of losses. Although we appreciate the work of our veterinarians, it is necessary to give the animal handlers even more support. We have a veterinary system today in which a state veterinary practice almost coincides with a production cooperation. This is a great strength which must be used even more effectively.

In addition to increasing breeding results and lowering losses, the emphasis in animal husbandry remains on further developing the productivity of our animals. This should be stressed even more strongly in management activities, competition and comparison of productivity.

Productivity of pigs for slaughter in 1984 was increased by 5 kg compared to 1983. In this context, we are of the opinion that the bezirks of Rostock, Frankfurt (Oder), Suhl, Schwerin, Potsdam and Magdeburg, which, in 1984, were below average productivity with 125 kg per pig, this year have realistic possibilities of considerably improving performance.

Concerning productivity of beef cattle, greater efforts are required in general. This year, we expect noticeable progress in the bezirks of Potsdam, Rostock, Schwerin, Suhl and Magdeburg. The pairing of feeder

breeds also contributes to the production of beef cattle. This possibility must generally be better utilized by prolonging the period of useful life of cows and intensification of raising heifers.

We must comment critically that, in 1984, we did not progress as planned in prolonging the period of useful life of cows. This has a negative influence on the effectiveness of the entire cattle business and limits the growth of beef production.

In milk production, the level must be stabilized and increased, for instance by overcoming more rapidly the differences in productivity. Strong measures are needed to improve the raising of young cattle. In 1984, appraisals show that female yearlings did not reach the normative weight in the bezirks of Rostock, Schwerin, Neubrandenburg, Magdeburg and Suhl. The causes can often be found in the raising of calves where, on the average, a live weight of 20 to 25 kg by the 6th month is not realized. Rostock and Frankfurt (Oder) have successfully started to extend the feeding of whole milk to 28-35 days. We consider this approach correct, since it ensures greater weight gain in calves.

Exceptionally high demands are placed on us to ensure wool production. The planned expansion of sheep herds can be accomplished with minimum stress on the fodder fund, primarily by greatest use of sheep fodder. It must be our goal to have sheep in every production cooperation of LPGs and VEGs by the time of the 11th Party Congress. In the 213 production cooperations which don't have any so far, the preconditions must be created presently. This concerns particularly the bezirks of Neubrandenburg, Potsdam, Schwerin Rostock.

In egg production, it is a matter of further improving stability and continuity. In this, as in the production of animals for slaughter and carrying out supply and export tasks in general, the exemplary experience of the Combine of Industrial Animal Production should be reflected even more effectively. Great attention must also be paid to the raising of young hens. It must be organized in such a manner that, in accordance with time requirements, the demand is ensured at all times for state and cooperative farms and for individual producers.

Promotion of individual animal production is a management task in order to fulfill and surpass the national economic plan. The management boards of the LPGs; the managers of the VEGs, and the councils of the production cooperations everywhere should without reservation undertake everything that is necessary in order to intelligently develop further individual production. Better use of small and splintered areas, a second collection of root crops for fodder, providing young animals until the contract is concluded, and organized buying back of breeder animals are suitable measures. After all, 1.29 million feeder pig contracts and 129,000 breeder cattle contracts are to be concluded with individual animal producers. This calls for active influence and control by the specialized personnel of the bezirk and kreis councils.

The 1985 economic plan provides for lowering total energy consumption in the agriculture, forestry and foodstuffs industry by 2.5 percent, and only through measures of scientific-technical progress. This corresponds to the amount of energy contained in approximately 580,000 tons of crude lignite. To increase energy savings, our greatest effort must go toward maintaining the DK contingents [DK= German index number for norms]. This cause is served, above all, by further tightening of order and discipline, consistent application of consumption norms specific to the enterprise, their accounting in conjunction with material interests, and overcoming unjustified differences.

Special attention must be given to improving and optimizing transportation, together with improving territorial distribution of production location and division of labor within the enterprises. This sector offers the best opportunities for economy, since 40 to 45 percent of the DK are used for transport. By comparison, the share for soil cultivation is at 20 to 25 percent, and that for harvesting at 15 to 20 percent. Through more efficient transport arrangements we must free up those amounts of diesel oil needed for work to increase soil fertility. The good experiences of the LPGs and VEGs of the production cooperations Hirschfeld, Grumbach-Kaufbach, Boesleben and Nebra must be applied extensively.

The use of secondary energy also demands our increased attention. In 1985, we will continue to concentrate on reclaiming the heat of milk and waste air, on the use of large and small heat pumps, and low-temperature heating systems.

The national economic plan poses the task of raising the production of efficiency measures for the agriculture and foodstuffs industry from 1.27 to 1.37 billion marks. It is especially a matter of increasing their degree of effectiveness. A further step in this direction consists in broad application of micro-electronics and robot technology. The preparatory work for their use must be accelerated, and the collectives must be prepared in good time for work with these robots. The focus is on robots for after-milking and handling, 1,900 of which are being produced in 1985 by the combine Land-technische Instandsetzung.

The effectiveness of our efficiency measures will be determined more and more in the future by how successful we are in streamlining technological processes and entire production sections. The deepening of cooperative relations between the LPGs and VEGs in plant and animal production provides new and far-reaching possibilities for increasing the production capability of our material-technical base.

#### The Readiness for Productivity on the Part of Cooperative Farmers and Workers to Be Promoted Generally

It is an undeniable fact that progress in effective socialist operation, as needed for the fulfillment and surpassing of the 1985 economic plan, is based on the consciousness and initiative of the farmers and workers of cooperatives. Perfecting socialist business operation [SBW] is, therefore,

a major contribution toward ensuring increased production and efficiency in all LPGs, VEGs, and their cooperative installations. In every LPG and VEG, the reproduction process should be studied more in its entirety in terms of material and value, so that additional reserves can be freed for the necessary growth in productivity in 1985. Socialist business management of high quality is indispensable in this undertaking.

When we speak of a further perfecting process, I should like to direct attention to the following points. We are concerned with reaching a forceful application of scientific-technical progress with the aid of socialist business management. The advantages of the territorial principle must be applied more effectively. For this reason, in a short time the LPGs and VEGs as well as their cooperation councils should create everywhere the managerial and organizational prerequisites for even closer cooperation among the sections and brigades of plant and animal production in every village.

In 1985, there must be no section or brigade that does not have its own demanding plan and coordinated competitive goals between plant and animal production. We expect that the experience of LPGs and VEGs in working with brigade accountants will be even better utilized.

Also to be strengthened is the work with scientifically proven norms, with optimal values, and their firm incorporation in the overall system of organization, planning, accounting, and material interest.

With the help of socialist business management, the still existing, unjustified difference in productivity between the LPGs and VEGs of plant and animal production must be purposefully overcome.

The great demands of the 1985 plan require that managerial activity concentrate on the efficient use of labor potential, its reproduction, and education and extended training. All the more so, since today the fulfillment and intended surpassing of the plans depend on it to an even higher degree. Not all possibilities have been exhausted. This is proven by the execution of the plan for a new generation of workers.

The Bezirk and Kreis councils, together with the LPGs and VEGs, must initiate effective measures to recruit and settle workers. Those LPGs with a low production and efficiency level must have primary support. In addition, we should not overlook the development of living conditions in the small villages. The time-tested principle of recruiting primarily the children of cooperative farmers and workers in the villages for agricultural occupations, and also to secure a corresponding number of girls, must become a firm part of our work. For efficient use of the labor force it is appropriate that the board members of LPGs, the management of VEGs, and cooperation councils jointly document working hour statements and prepare management decisions, so that peak labor requirements can be dealt with effectively.

We are convinced that this year, also, our cooperative farmers and workers, actively supported by the authorities in government and industry, will apply their knowledge and capabilities, their initiative and energy for a further increase in productivity.

HUNGARY

INTERNAL CONDITIONS FOR PLAN PREPARATION

Budapest FIGYELO in Hungarian No 13-14, 28 Mar 85, 4 Apr 85

/Interview with Akos Balassa, department chief of the National Planning Office, by Annamaria Inzelt; date and place not specified/

/28 Mar 85 p 5/

/Text/ The newspaper reader encounters the national economic plan in two forms: at the end of the year he may become acquainted with the annual or the 5-year plan approved by the National Assembly or he may read reports on economic development where he can learn what has been fulfilled in the plan and what has not been. But he cannot find out much about how the plans are prepared. Annamaria Inzelt interviewed Dr Akos Balassa, the department chief of the National Planning Office, about the planning system, its process, its main characteristics and methods, and the possibility of social participation in the work.

/Question/ How much did the transformation of the economic guidance system change, and how much is it now changing, the planning process and the scope of its effect?

/Answer/ The basic change in Hungary occurred in 1968 when we converted from a plan directive to an economic guidance system based on an /the/ organic relationship of plan and market. In this system the economic units and the councils plan independently. National economic planning continues to study the development of the entire economy. But the essential difference is that now the economic plans do not set forth greatly detailed decisions, but on the one hand they set the main directions of economic development and certain selected socioeconomic goals, and on the other hand they determine the means for carrying these out. In the latter the direct state decisions and the use of indirect economic regulation are determined by planning.

/Question/ Have the planning methods become more modern?

/Answer/ Yes, in fact significantly so. Modernization should not be simplified to planning "technology" and techniques. The methods are determined by the fact that planning is a complex process in which--in contrast to the period prior to 1968, it became necessary to regulate in a new way the participants and the work

distribution and cooperation which developed among them. On the basis of our experiences in past years the work area and relationship system of the central planning organ, the National Planning Office, and of the subbranch and functional organs has been clearly developed in national planning. This development includes designating what organ has responsibility or advisory, cooperation and conferring functions, and what questions call for the performance of joint planning work.

We also had to determine in a new way the line of the economic studies by which the plans are to be shaped. In this way, for example, economic analyses and forecasts received a greater role. The method of determining plan goals has also been changed. Here the study of the various changes and their confrontation had a greater emphasis, along with the discovery of the advantages and disadvantages in the individual changes, and the development of the most appropriate changes. Naturally, technology belongs here too. For example, modern computer applications expedite plans to study in a more complex way the effects of social and economic goals, creating better possibilities for the analysis of the changes and selecting changes that will better serve certain goals, and so forth.

Question What kinds of forecasts and perspectives help in the work of the planners?

Answer Forecasts are prepared within the scope of economic planning or promotion, among other things, in regard to the development of foreign economy or the expected external conditions. For the drafting of the Seventh 5-Year Plan, for example, outstanding foreign economic forecasts were prepared by the World Economic Research Institute of the MTA Hungarian Academy of Sciences and by the Economic Cycle and Market Research Institute. Frequently it is not possible to prepare firm forecasts when according to conclusions the future can only be judged as uncertain. Then it is necessary for us to prepare for different versions of expected developments, for example, different versions of credit affairs or foreign trade price developments.

Question What is the situation for forecasts in the domestic economy?

Answer Matters such as the development of the demographic situation, for example, play a significant role here. In the short term such information is needed for anticipated efforts, intentions and actions of the enterprises. Since the economic units make independent economic decisions, their forecasts-- or the forecast of expected effects, to put it more precisely--are an important task for economic management and planning.

Question That is, forecasting is an important information base of planning.

Answer Yes, But forecasts are not a basic method of planning in the short-term economic processes. Planning does not forecast, but rather it makes determinations about actions and goals by taking forecasts into account. It is not important for planning work to know what would happen if the state economic management did nothing, for this is actually expressed by the forecast, and on the other hand planning prepares the actions of state economic management.

Question This would certainly be promoted by a more fundamental knowledge of enterprise intentions. But I do know that at the moment one institution, the KSH Central Statistical Office is working to prepare short-term economic forecasts for Hungary.

Answer It is true that at present it is primarily the KSH Economic Research Institute that is preparing such forecasts. But the National Planning Office, the Hungarian National Bank, the Ministry of Foreign Trade, and several subbranch ministries or their institutions, also have such forecasts. On the basis of recently established cooperation between the National Planning Office and the economic laboratory of the MTA Economic Institute, the latter is also preparing short-term macroeconomic forecasts. It is desirable to prepare parallel forecasts and compare them to each other. To this end, various measures are planned for the future.

Question Has thought been given to the establishment of new institutions? Many institutions abroad are in fact preparing short-term economic forecasts. Most of them are independent of the economic management organs. Among the Hungarian institutes which you mentioned the Economic Research Institute is the only one which prepares forecasts expressly on enterprise intentions and with which the enterprises are not in dependency relationship.

Answer We do not have that many well-trained specialists to permit us to establish new organizations. Therefore I regard it as of prime importance to improve the forecasting activity of existing organizations. I would give, however, a such greater role to the forecasting activity of the Hungarian National Bank. It is also conceivable that the National Market Research Institute could perform such work and could receive a greater role in the activity of the planning office.

Question On the basis of forecasts regarding variously expected conditions and situations has there been opportunity to work out alternatives?

Answer Some economic plan thinking for various time periods comprises versions linked to foreign economic forecast variants. Some also conceive various goals and means taking into account the given conditions system. For example, during the preparation of the Seventh 5-Year Plan we have come up with versions that depend not only on the varying development of external conditions but also on the varying content and success of domestic economic actions. These represent variants to goals on the one hand and to the methods of implementation on the other.

Question Actually, what do the planning organs mean by an alternative proposal?

Answer In the framework of national economic planning, alternative proposals are prepared primarily but not exclusively in regard to economic policy, and not only within the framework of medium-term planning. If I reflect on past years, we examined a number of versions in the annual planning process of the present 5-year plan, and thereafter we had to choose one of them.

Question Does this selection refer to plan goals or to the means, the implementation methods?

Answer Both. We have to make a decision on the basic mode of solution.

Question How do plans and variants relate to each other?

Answer It has been thought that plans with a number of variants included could be approved. But this cannot be done. A plan comprises economic decisions, and in making these decisions we must choose among different versions, such is the essence of decisionmaking.

But here, too, a certain flexibility must be realized. For example, we may prepare in the process of planning variants that are built on different foreign credit relations. It depends on the assumed foreign credit relations--as one factor--what the economic growth rate may be, what resources are available for the distribution of revenues, including how much can be used for investment, what the real income of the population may be, and so forth. In approving the plan, it is necessary to choose one of these variants. It may be, however, that even when the plan is approved it is impossible to forecast conditions clearly. In such a case the principle must be realized that in respect to the development of foreign environment it is necessary to take into account the most likely variant--within this range, however, not the most favorable value but between the average and the unfavorable. That is, within the chosen condition system the plan must be prepared by proceeding from securely available sources. If we continue to be uncertain about the external conditions, we are justified in putting in the economic plan those principles and that economic policy and economic management outlook which we use if the external conditions do not develop as expected according to the variant we took as the basis of the plan.

Question Then we are not saying that according to the planners there is a second, third or fourth economic plan....

Answer Not at all. As projected by certain economists, the illusion is that we have a prior prepared plan worked out or a scenario for every conceivable case that may rise. This suggests the manifestation of modified faith in the omnipotence of planning or the plan. It assumes that planning can prepare the economy a priori for every kind of possibility. Life has already often proved that it is not possible to be prepared for everything. It also follows from this that if conditions develop differently from the way we assumed, we must boldly modify the goals and our attitudes on the basis of features and directions developed ahead of time and outlined in the plan. Planning work, therefore, cannot conclude with the approval of the plan but must be continuous.

Question If I understand you right, the most important part of continuous planning is to follow and analyze the processes with continuous attention. But does this not carry with it the danger of continuous intervention?

Answer It is a great and responsible task to weigh and decide whether the unplanned changes that occur are actually as important as to require measures

for intervention or whether we are dealing with a deviation to which we need not react immediately. We must unconditionally consider that a too frequent intervention causes confusion in state management and is also disturbing to enterprise management. It is deprived of the possibility of looking ahead. Thus we must weigh in a manifold manner the short and long-term advantages and disadvantages of intervention (changes and new measures) and of nonintervention. But if it is necessary to intervene it cannot be postponed, for the implementation of an intervention frequently has its own short carrying out time.

Question In preparing the Seventh 5-Year Plan what basic changes have you studied or are studying?

Answer We have studied several hundred variants if we take into account what has been worked out in regard to important partial questions. But in respect to the development of the whole economy, these do not differ characteristically one from the other, and moreover it is not even possible to "handle" so many variants. It is not enough, however, that the economic plan ideas should be prepared in a number of variants; it is also necessary that the various subbranch developments--technical-economic concepts, development proposals and so forth--should include variants. There has been progress in this area, but the planning work here is still weak.

Question Do you believe it possible at all that the same planning groups can prepare a number of variants that are in competition with one another?

Answer Yes, and we have had such experiences. Clearly, however, it would be advisable for different planning groups to work out identical subjects. Our experiments in this direction, however, have not led to success thus far. Hungary is a small country, everyone knows everyone else and if different organs are commissioned to work out a given problem in the end it will be the same people who are working on it.

Question Would it be possible in such cases to commission foreign experts?

Answer No economic planning problem has arisen where foreign experts--except for occasional consultations--could have effectively participated in the work. Their participation in the solution of specific tasks would be useful, but this is a matter that belongs in the area of technical planning, or in the enterprise sphere. In economic planning there has been occasion for the development of competing plans, although not in the planning phase but forecasting.

Question Could you give an example of this?

Answer As I mentioned we have given parallel commissions within the framework of the Seventh 5-Year Plan to the World Economic Institute and to the Economic Cycle and Market Research Institute, and also to several other institutions to forecast expected global economic conditions. We have also asked for their ideas on how the Hungarian economy should react to the expected developments of conditions. We asked the institutions concerned not to exchange ideas during the course of their work for our intent was to gain a knowledge of possible different approaches. Despite the forecasts as they developed, they foresaw very similar conditions. This did not guarantee, of course, that the forecasts were good.

Question I understand that in medium-term planning certain enterprises were asked to develop strategic concepts. Could these give ideas to economic planning which would be worth considering in the course of planning, that is, could be regarded as a kind of information base?

Answer They would be one of many.

Question If they take into account the strategic concepts of an enterprise, would this become a plan as far as the enterprise was concerned?

Answer No, or at least not directly. But if there are elements in the strategic concepts of the enterprises which are interesting from the viewpoint of economic planning, we will consider them and use them in preparing state decisions, for example, to determine state assistance or support for certain activities. In this way the strategic concepts of the enterprises will directly affect national economic planning. Otherwise, the concept will remain a part of enterprise strategic thinking which will provide a basis for developing its own plan concept and plan.

Question How does the economic plan influence enterprise planning and the plan?

Answer It is the economic plan that defines and shapes the economic environment and condition system in which the enterprises plan and define the goals and plans of their own management. In their activities the enterprises adjust to the effects shaped on basis of the economic plan, with an orienting economic regulatory system mediating its goal, raising requirements and creating incentives. Moreover, they must take into account and realize those state plan decisions existing in a definite and narrow scope that directly affect their activities.

Question To what extent can the enterprises and the councils regard the calculation material of the economic plan as information?

Answer The preparation of the basic calculations in the economic plan is an indispensable element of plan preparation. The calculation material provides helpful orientation to the economic management organs about the course which economic development is very likely to follow. But the calculation materials do not include decisions and are not binding on anyone. And therefore we do not share them in detail with the enterprises. In addition to publishing the national economic plan, we provide the enterprises--primarily with material in the nature of textual information--about the most important processes; it is worthwhile for them to take this into account in the course of their own work. It is true that certain ministries--primarily in the 1970's--indirectly smuggled in certain elements of the breakdown system by breaking down the calculation materials of the economic plan and formulating them as a "requirement" or "expectation." But no one can publish such calculation material as though it were a document determining enterprise activity, and it cannot be a base of reference for the enterprises or other organs to request exceptions or concessions from general economic regulation.

[Text] [Question] How is social participation realized in the planning process?

Answer It is important for society to discover, understand, compare, and harmonize the interests of the various groups and subclasses among the producers and the population, the different points of view, approaches and considerations. The overall social interest that is expressed during economic planning includes the coordinated interests of the various subclasses and groups, and if it represents something beyond this, something "with greater perspective" it cannot be defined exclusively on the basis of professional studies.

Question What kinds of questions are they considering worth discussing? What are those social interest representation organs they asked for views on the concepts of the Seventh 5-Year Plan?

Answer At the very outset of preparing for the Seventh 5-Year Plan we developed a cooperation program with the social, interest representational and professional and scientific agencies. These regulate the phases and manner in which there is participation in the planning work. In the second quarter of the past year every affected agency discussed the econopolitical concepts of the Seventh 5-Year Plan and the draft of the plan concept in February of this year in forums of smaller leadership bodies. They will also discuss the plan concept within wider circles together with the draft of the plan law to be put before the National Assembly. For example, SZOT National Council of Trade Unions and the cooperatives will also participate in working out the detailed consideration of living standards.

Question Do the leading bodies of the above-mentioned agencies organize the membership discussions and pool together their opinions, or do the leaders, as representatives of the membership, independently assume a position and tell the membership about it at the usual time for reports?

Answer At various stages either the broader or the more narrow body discusses the planning materials basing what they do on cooperation agreements and rules. The social organizations also take care to see that a relatively large share of the membership is familiar with the idea and has the opportunity to make comments on it.

Question Has it every occurred that some units have not only expressed an opinion on variants worked out in the planning framework but have made their own, different suggestions?

Answer This has happened in partial questions. For example, in respect to central wage policy, social policy and consumer price measures, SZOT has made independent proposals a number of times.

Question In recent years the frequent central interventions in realizing the plans have often been criticized. Could social control have some kind of role in avoiding this?

/Answer/ Obviously to the extent that the plans are developed with social participation it is necessary that all kinds of important corrective and modifying steps should be taken with the agreement of the interested organizations. This is generally what happens. At the same time there are situations where in the interest of the whole society quick intervention is important, and for this reason long discussions are not possible. For example, the international financial crisis of 1982 created a situation for the Hungarian economy that made such discussions impossible because it was necessary to act immediately. Of course this must not be abused, but when there is a flood we cannot hold a plebiscite on organizing a flood defense. A subsequent social control may condemn the intervention, but there are situations where an intervention cannot be delayed.

/Question/ When and on what kinds of questions can a plebiscite be held?

/Answer/ Primarily on local questions. And these can be conducted by the councils. For example, an area development approval can be given only with the agreement of the residents of the area, and one way of doing this is the plebiscite.

/Question/ Is a plebiscite conceivable on a question affecting the entire society?

/Answer/ Plebiscite is not an economic or even an econopolitical question. It is a political matter. If within the framework of the development of the entire political system the occasion arises for the use of the plebiscite measure, economic problems of possibly outstanding importance--not only narrow technical or economic ones--may be decided on, of course after appropriate preparation and broad-scale review of the effects and consequences.

Considering the experiences of other countries, however, I would not see plebiscites as the main path to the development of democracy in economic policy questions, but I would rather see it--in addition to the strengthening of the above-mentioned social participation in the further growth of the National Assembly's role. It is important that the National Assembly--primarily by the way of its committees--be informed of the thinking as it develops and has the opportunity to discuss it in the process of preparing the economic plan, not only immediately before the discussion of the plan law. This might make it possible to prepare the preconditions for the plan proposal, taking into account the opinions expressed by the democratic national representation embodied in the National Assembly. The preparation of the Seventh 5-Year Plan is proceeding accordingly.

/Question/ Does modernization of the economic management system require some kind of planning reform?

/Answer/ If not reform, then continuous modernization. This does not mean altering the regulatory system. The individual elements of the regulatory system are changed periodically, but the development of planning work continues within the economic management system. Other elements in the further development of the economic management system also react on national economic planning.

Question Could you mention some of these?

Answer The inventory system for the realization of economic plans will continue to include direct state decisions and indirect economic regulation. A change is represented, however, by the fact that the area of direct state decisions is narrowing. For this purpose, it is necessary that indirect economic regulation should be in better harmony with the econopolitical and economic goals that are also put in the plan. If the indirect economic regulators serve the goals of the economic plan well, there is less need for direct state decisions or intervention. But if the indirect regulation is not in harmony with the plan goals or does not serve their implementation effectively, we are obliged to use direct state decision in broader scope. The forms of state decision are also being modified. On the basis of problem and goal oriented decisions--in addition to one-time decisions--we apply program-type solutions more broadly. The forms of central economic development programs have changed. A greater role has been given in this area to enterprise initiative, voluntary participation based on incentive, plus enterprise decisions and financing in respect to specific developments. The development of action programs is underway.

Question What is the role of the latter in your judgment?

Answer The action program differs from the central economic development programs in that in the case of the latter those concerned with production generally seek to determine the economic goals of the given area in full scope, whereas in the case of the action program only state actions are included but not the specific tasks of the economic organizations.

Within the framework of the action programs, the state performs organization-coordination work among the affected economic organizations and takes organizational and "assistance" measures. These programs may incidentally go together--but this is not a condition--with the support of technical development in a given area. Therefore various methods are possible, yet their goal is not to limit enterprise independence but to neutralize market effects.

Question Can the application of the programs result in the danger that the state will take over certain responsibilities and burdens from the enterprises?

Answer Both must be borne by the management.

Question But by referring to program participation it has often been possible to receive exemptions if not in advance then subsequently.

Answer We can prevent this only if we conduct rational state activity.

Question What does this mean?

Answer That we will use a state program--in narrow scope--only when and if it is absolutely necessary. That these too should be built in a farreaching way on enterprise incentive and voluntary participation. That the programs should have efficient goals and should prescribe supports and subsidies only if justified by the national economic interest or by unavoidable differences in the national economic and enterprise interests, not the interests of the collaborating enterprise alone.

Question How does planning modernization affect the independence of enterprise planning and management?

Answer The management independence of the enterprises must manifest itself in the planning. Basically we are not speaking of new principles but of the fact that in practice we should realize more consistently what has been already partly developed. Namely, that the enterprise plan belongs to the enterprise and is not a means for future guidance of the enterprise from the outside and "from above." In the enterprise plan the enterprise itself determines the goals and the necessary means for their implementation. The enterprise is not responsible to the state economic management for the fulfillment of the plan.

Question The 1972 law on economic planning and the Council of Ministers' decree regulating its execution state that the enterprises themselves prepare the plan, and the development of the methods is also their job. It seems that they have not been very successful in realizing this resolution.

Answer Every enterprise determines its own methods of planning since it is not possible to use same kinds of methods in different kinds of enterprises. There must be a difference in the planning at a basic materials enterprise and at a processing industry enterprise, at a larger enterprise and a smaller, at an enterprise that produces mostly for export and one that produces mainly for the domestic market. In past years the subbranch ministries have issued to the enterprises procedural prescriptions which could be interpreted in two ways: as recommendations or as orders--and this was the one frequently implemented. The latter had the consequence of leaving the enterprises with little time or spirit to work on the development of their own plans, as certain experts were of the opinion that what they received from the ministry was enough.

In past years it has been our experience that some enterprises have not planned primarily for themselves, or--if they had the energy--they prepared two plans: one for the ministry and one for themselves. This has been substantially changed. The future is clear: the enterprise must prepare its plan in the interest of the conscious and foresighted management of its own economy, that is, for its own goals.

Question Is the nature of the information and the extent of detail that is forwarded about enterprise plans being modified?

Answer There is no need for the ministries to receive the plans of the enterprises continuously and in full. An understanding of the enterprise efforts must be realized by basically different methods, if for nothing else in order for us to know actual enterprise intentions and goals. The enterprises can be relied on to regard planning work seriously only if they can be certain that no one will judge their work on that basis or depending on how they should fulfill certain plan indexes.

Question Is it not true that the subbranch ministries are responsible not for the activities of an individual enterprise but the subbranch as a whole?

/Answer/ That is true. And for this very reason I myself regard it as important for the subbranch ministry to have a continuously objective picture of the subbranch as a whole and of the developments in the important areas. But it does not have to concern itself with the plans of the individual enterprises. Of course, there may be exceptions in some specific cases where it is worthwhile to know of enterprise intentions.

/Question/ For example?

/Answer/ If on the basis of experience the justification exists for state decisions or measures in some question, it may be advisable to have direct knowledge of enterprise intentions on the specific question. But it is justified to call in the plans of those enterprises which receive considerable state support because the state must be convinced that the enterprises in question desire to manage in such a way that the supports will serve their purpose and can be dispensed with in time. Plans of the more important energy and basic material producing enterprises can also be called in. Moreover, it is advisable to have knowledge of the medium-term plans of economic organizations--on the basis of a narrow range of data--in a broad but not a full manner.

/Question/ Looking back on the past 38 years of economic planning, what do you regard as the most important activity development?

/Answer/ I would emphasize three things.

First, economic planning has become well suited--and is becoming increasingly so--for outlining for the economic policy the real area of mobility of economic development and its alternatives, for proposing the best goals and the actions promoting these goals by relying on the evaluation of the economic situation as it develops and the structures and trends, by forecasting the future development of objective conditions, and by taking into account economic laws.

Secondly, we have essentially succeeded in developing the system and methods of economic planning which together make it possible to realize overall social goals and efforts and to develop under socialist market conditions the independent, automatic and responsible management of the economic units.

Thirdly, the situation is gradually developing where economic planning represents not only the tasks and activities of the specialized state institutions and experts but is gradually becoming an overall social agent, and a manifestation form of the proliferation of democracy.

It should be added that the modernization and development of planning is not a closed process. In the interest of realizing the foregoing or satisfying changing requirements there are still many more tasks awaiting the science of planning and the experts. But even more important: the planning system and method gives only a framework, conditions and possibilities for successful planning work, its realization depends on practice, that is, the active, skilled and calculated activity of all the participants in planning.

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HUNGARY

## INCOME OF AGRICULTURAL SECTOR ANALYZED

Budapest FIGYELO in Hungarian 11 Apr 85 p 19

[Article by Dr Maria Guba and Dr Gyula Varga: "How Much Do They Earn in Agriculture?"]

[Text] The basis of three decades of development in Hungarian agriculture has been the consistent application of the worker-peasant alliance. In this framework the gap between the income of farmers and that of the industrial workers has gradually been closed. In the mid-1970s a balance was already achieved. The per capita income of people employed in agriculture has been, despite their lower wages, somewhat higher and their work-time essentially longer than that of the industrial workers.

Thus over the last 10 years Hungary formed part of that group of countries in the world in which there was no disparity between the income of peasants and industrial workers. True, there were also very few countries in which agricultural production grew at such a fast pace as in Hungary.

The preservation of this economic and social achievement is of fundamental importance and we should argue against any theory which tries to undermine it either with both political or scientific arguments. A study published by the Research Institute of Agricultural Economy has tried to answer the following questions:

--Is it true that the wage outflow in the agricultural enterprises outstripped the limits set by the plan?

--And consequently, is it true that peasant incomes exceeded the income level of industrial workers, overturning thereby the desirable balance?

It is well known that since 1978 the earlier continuous and fast increase in the standards of living has slowed down. The real wages of workers and employees dropped between 1978 and 1983 according to the statistics of the Research Institute of Agricultural Economy by 5.9 percent, those of the agricultural workers in particular by 5.8 percent. Although this decrease in income has been compensated by the undeniably fast growing social fringe benefits, the controversy around the difference between peasant and worker incomes has become more pointed by the stagnation of the standard of living and above all by the strong differentiation in personal incomes.

The findings of the Research Institute of Agricultural Economy unquestionably demonstrate that in the early 1980s the total amount paid by the agricultural producing cooperatives as personal wages increased beyond the limits fixed by

the plan, but only because the number of employees grew beyond the expectations. The per capita income in the agricultural enterprises is still running below the nationwide average and, with the exception of the light industry and domestic commerce, it is lower than the average income of all other branches of our national economy. This occurs despite the fact that from the various economic producing sectors it was agriculture which between 1978 and 1984 had the most rapid growth and played a key role in preserving our foreign trade balance.

According to the findings of the aforementioned Institute, incomes in the state farms in 1983 were 4.5 percent and in the collective farms 9.4 percent lower than the incomes in the socialist industrial sector. This handicap of the farmers was compounded by the fact that they had to work 15 percent longer than the industrial workers to earn their income which was running below the industrial average. In terms of average hourly wage the disadvantage of the agricultural workers amounts to 17-22 percent.

A growing percentage of the employees of agricultural enterprises are involved in industrial and service activities, which have a loose connection or no ties at all with their basic task. Thus we cannot equate agricultural employment with specific agricultural work, let alone with peasant way of life.

The statistics available at the Research Institute of Agricultural Economy, which agree with the findings of the Institute of Industrial Economy, show that the average income of industrial workers in the agricultural enterprises is 10-15 percent less than that of their counterparts in socialist industry as a whole. The workers of the agricultural enterprises and the villagers in general find a possibility for rounding up their personal income by laboring additionally in small-scale farming. They are availing themselves of this possibility nationwide, to that extent that 9-10 percent of the general population's income and almost 20-21 percent of the collective farmers' income stems from small farming.

Fifty-six percent of the village population and 21 percent of the small towns' inhabitants are performing some kind of small-scale agricultural activities for 2-2.5 hours daily, in order to raise their income.

The additional receipts of the farmers--resulting from significantly more work--from small farming (taking into account the retail prices of the produce they themselves consume) increase their income, according to the findings of the Research Institute of Agricultural Economy, by 91 forints monthly over the average income of industrial workers.

It is worthwhile to note that most economists are still putting too much emphasis on the analysis of real wages, while it is well known that wages form only a part, and in fact a shrinking part, of the incomes provided by work. This appears to be particularly noteworthy when we compare the income conditions of agricultural and industrial workers, since the income which stems from ancillary activities has long been important for the farming population, while it became only recently meaningful for the

industrial workers. After all the real value of the wages did hardly, or not at all, decline in the 1980s, whereas real wages dropped by 5-7 percent.

According to our calculations the social fringe benefits, which increase the wages and salaries by 50 percent as a national average, are disproportionately divided, despite the process of rapprochement, among the various social classes and population strata. The per capita amount of social cash benefits of the collective farmers is 400 forints less per annum and their benefits in kind 1,000 less than those of the industrial workers.

According to a survey by the Institute of Agricultural Economy, the fact that characterized the mid-1970s, i.e. that the agricultural workers earned 400 forints monthly more, at the price of a 20-25 percent additional worktime, than the industrial workers, has gradually changed between 1978 and 1983 to become an approximately 500 forints disadvantage per month. In other words the period between 1978 and 1983, which is now in focus of polemics, was not characterized by a relative growth of the income of the farmers. In comparison with the general 49 percent increase in nominal incomes, which was 48 percent in case of the workers, the growth in the nominal income of the collective farmers and the families of mixed incomes was merely 40 percent.

Aside from the income rations of the various social classes and population strata, the conditions of the place of work and housing are of great importance because of their impact on the standards of living and ways of life. Among these the conditions of housing and other facts of life in the villages are playing a great role. In Hungarian terms this means that the villages are characterized by poor infrastructural standards and by the lower social benefits of their inhabitants.

This disadvantage includes the fact that villagers are compelled to build their own housing, which is poorly subsidized by the state, that they pay more for the services and have higher transportation fees. All these disadvantages are affecting almost all the workers of the agricultural enterprises and to a great extent also the industrial workers who are living in the villages.

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POLAND

PROSPECTS FOR INCREASED TRADE WITH FRG, SCANDINAVIA

Obodowski Discusses FRG

Warsaw RZECZPOSPOLITA in Polish 18 Mar 85 pp 1, 6

[Interview with Deputy Premier Dr. Janusz Obodowski by RZECZPOSPOLITA journalist Tomasz Bartoszewicz: "Conditions for Normalization"; date and place not given]

[Text] In a few days a government delegation from the Federal Republic of Germany is coming to Poland for the Fifth Session of the Government's Mixed Commission for Economic, Industrial and Technical Cooperation between Poland and the FRG. The delegation is headed by the minister of economy, Dr. Martin Bangemann. In view of this, RZECZPOSPOLITA requested an interview with the co-chairman of this commission, Deputy Premier Dr. Janusz Obodowski, on the subject of economic relations between Poland and the FRG.

[Question] Mr. Premier, the session of the Mixed Commission is taking place after an interruption of a few years. Does this mean that there was no cooperation on the governmental level?

[Answer] Indeed, during the last few years---although through no fault of ours---contacts with the government of the FRG has been limited and the level at which they took place was reduced. West Germany did not look favorably on our repeated proposals to hold another meeting of the Mixed Commission, and recently it also postponed the date previously agreed upon. This was probably the result of specific political agreements with the NATO countries. The growing belief that attempts to isolate Poland politically have been unsuccessfully has caused some capitalist countries to gradually deviate from this line. This is demonstrated by the ever-increasing official visits of western politicians in our country.

This, of course, had an effect on our contacts with the FRG. After many important meetings and visits by representatives of West German political parties and industrial groups, the vice-chancellor and minister of foreign affairs of the FRG, H. D. Genscher, made a working visit to Warsaw. During his recent visit in Moscow to attend funeral ceremonies, the chairman of the council of ministers, General Jaruzelski, met with Chancellor H. Kohl. This has helped to initiate a serious dialogue on the subject of economic cooperation between Poland and the FRG.

[Question] I gather that the agenda of the Mixed Commission meeting will be long. Which of the problems do you believe to be of the greatest importance?

[Answer] Naturally, after a long interruption, a large number of matters must be discussed. First of all, it seems to me that it will be necessary to review mutual economic and financial relations. In this context, we should define the goals and tasks which will help to reconstruct and normalize our economic cooperation and trade. I think it would be well to first agree upon and approve the overall, normal principles which regulate economic and financial relations, taking into account Poland's payments' situation, and also to determine the areas of economic cooperation which require the special concern of the governments of both countries.

We wish to establish lasting and mutually favorable economic and commercial ties. This is made necessary also by Poland's large financial obligations to the FRG.

[Question] Debt-servicing requires considerable funds. Under our conditions, these funds can be produced only through a growth in export of goods and services. In view of this, will we ask that the FRG grant us special privileges regarding our exports?

[Answer] Indeed, if we are to meet our payments obligations we must have large financial resources. The money for this purpose must be earned mainly from exporting more than we import. Therefore, Poland will ask that conditions be established which will give our goods and services access to the FRG market. We do not expect special preferences, but we must demand that trade restrictions which discriminate against our country and which are contrary to GATT agreements, be lifted. I do not have to prove that a quick elimination of existing barriers in access to the FRG market will make it easier for us to meet our financial obligations to that country.

[Question] What specific restrictions does the Polish side demand be eliminated?

[Answer] First of all, we believe that it is necessary to eliminate sales quotas, i.e., remove all types of quantity restrictions imposed on our export to the FRG market. Furthermore, we would like the West German government to actively support proposals which would give Poland easier access to the Common Market.

[Question] You mention the Common Market. Will relations between CEMA and EEC also be discussed during the talks? After all, you are now the chairman of the executive committee of the CEMA.

[Answer] Yes, I am performing the function of chairman of the CEMA executive committee in behalf of our country. However, the meeting of the Mixed Commission is primarily a forum for the exchange of views on bilateral matters. Thus I do not believe that CEMA-EEC relations will be brought up in our talks. On the other hand, I believe it would be useful to discuss--at another forum and at another time--present and future relations among countries which belong to both groups. This would help in normalizing East-West relations.

[Questions] Up to now we have mostly brought up subjects in the area of trade policy. Will concrete economic endeavors also be discussed?

[Answer] That is the intention of the Polish side. We believe that thus far not much has been done to stimulate industrial coproduction between our countries. If we are to talk about lasting and favorable economic ties we must seek them first of all in the field of industrial coproduction. Yet currently the situation is that the FRG, which is our largest trade partner among the capitalist countries, lags behind many other countries from the standpoint of cooperation in the area of industrial coproduction. Many coproduction agreements entered into during the 1970's have expired. In some cases ties were actually broken off, through no fault of ours.

But last year it was possible to note a certain growth in interest on the part of large firms in the FRG in cooperation with Polish industry. Talks were conducted with such firms as Krupp and BASF, for example. Talks with banks were also held. In addition, the subject of the participation of West German firms in completing some investments interrupted by us for lack of the necessary funds was also raised. Many talks were held, but up to now they have brought no concrete results. During the Mixed Committee session we will renew our proposals on the joint completion of certain investments in our country. We would like to pay the resulting financial obligations through additional exports to the FRG of goods produced in the jointly completed plants. We expect that the development of industrial coproduction and cooperation in the area of investment will help to change the traditional structure of deliveries from Poland, in which raw materials dominate. The appeal of the FRG as an economic partner will depend largely on the degree to which it works with us in making it possible for the structure of our export to the West German market to grow and change. A steady improvement in the economic situation in Poland should be of help here.

#### Comments of FRG Representative

Warsaw ZYCIE WARSZAWY in Polish 23-24 Mar 85 pp 1, 2

[Interview with Martin Bangemann, FRG minister of economy, by Karol Szyndzielorz: "We Count on Poland to be a Stable Partner"; date and place not given]

[Text] After signing documents at the conclusion of the deliberations of the Poland-FRG mixed economic commission and prior to an international press conference, the FRG minister of economy, chairman of the FDP, Martin Bangemann, granted an interview to ZYCIE WARSZAWY:

[Question] What is your opinion of the talks held in Warsaw? This was, after all, your first experience in the field of economic cooperation between Poland and the FRG.

[Answer] You are correct. I wish to say that the negotiations were successful. We extended a contract which had expired. We signed a protocol in which we indicate new possibilities for economic cooperation. In addition, based on an

increase in trade turnover between our countries, we stated our willingness to assist Poland in the extremely important problem of financing mutual exchange. But I think that in our look at these problems we should go further and not be satisfied with what has already been done. I am referring here to the overall atmosphere of the talks, about their climate, and about the political significance of what has been done in the economic area. This is good.

In 1970 we reached a peak in relations between Poland and the Federal Republic because we were able to draw conclusions from the past and propose a future to our nations when we signed the agreement in Warsaw on 7 December. In the years that followed, this led to expansion of our reciprocal relations.

[Question] In the early 1970's a discussion went on in the FRG on how great its dependence on the East should be. At that time the issue was deliveries of natural gas or coal. In Poland, on the other hand, in the early 1980's the issue debated loudly was the size of the losses resulting from Poland's dependence on the West. That, therefore, is how the problem of mutual confidence, as well as the meeting of obligations by partners, arises.

[Answer] I believe that to be an important principle in economic policy. Economic relations can be built only on durable foundations. This cooperation should not be subjected to the unavoidable fluctuations in the political situation. I am also convinced that good economic relations promote greater stability in the political sphere. That is why it is important to draw conclusions from such discussions. If they help to create greater confidence, that is good. In the Federal Republic, after an exchange of views on dependency on the East, we came to the conclusions that you are familiar with. We expanded our economic contacts with the East European countries, and particularly with Poland. In our country there is no doubt that economic and industrial cooperation is sensible and that it forms a basis for sound policy.

[Question] How important, really, is trade exchange with the socialist countries for the Federal Republic?

[Answer] If we were to judge this solely on the basis of statistics, then it would appear that this trade is not very large. It cannot be compared with our exchange with our EEC partners. But its importance is growing in comparison with other sectors of our export or import. This trade is also very important because it complements our policy towards the East. And we cannot abandon this policy.

[Question] In the 1970's, then-chancellor Helmut Schmidt said that no less than 200,000 jobs in the FRG economy depend on trade with the East. Has the role of this trade for the labor market grown or has it remained the same?

[Answer] It is hard for me to say. That depends on the structure of this trade. I can say with regret that our analyses show that the share of industrial installations and machinery in our export is shrinking. But this does not mean that the number of jobs has changed dramatically.

[Question] I will ask what is perhaps a naive question: What, really, does the FRG have to gain from economic relations with Poland, the USSR, or other

socialist countries? I have in mind here not only jobs but the basic problem-- is this good business?

[Answer] Certainly, this is also good business. Otherwise it would be at the very least incomprehensible why an economy and its representatives take active part in developing cooperation. We cannot control the behavior of firms. They are guided by their own figures. They are seriously involved in this--politically also. By way of an example I would like to cite such industrialists as Berthold Beitz, and Otto Wolf von Amerongen. After all, these people could also make their money somewhere else, and yet they are working towards economic cooperation between the East and the West. The conclusions are two-fold-- this cooperation is advantageous, but it is the result of conviction.

[Question] Otto Wolf von Amerongen told us once in Kilonia [Cologne] that it should not be surprising to the FRG that countries which obtain West German machines use them for production and want to sell the produced goods. In your opinion, what are the possibilities of selling Polish goods in the FRG?

[Answer] I know what Poland wants and expects and believes these wishes and expectations to be justified. The conclusion of contracts obviously leads to economic cooperation. We have proposed that in the 36 still-existing quotas, 34 items be increased 10 percent. We are fully aware of the fact that without the FRG market, without other markets, Poland will not be able to meet its obligations.

[Question] The last question: After this long interruption in the commission's work, when will the next meeting be held?

[Answer] I am convinced that we will be able to maintain the normal rhythm in the commission's work. We will meet once a year. We have already invited the Polish delegation to Bonn, for a meeting in the spring of next year.

[Interviewer] Thank you for the interview.

#### Trade with Norway

Warsaw RYNKI ZAGRANICZNE in Polish No 35, 21 Mar 85 p 8

[Article by Teresa Radziminska: "Norway--A Far and Unknown Country?"]

[Text] "Unfortunately, for many Poles Norway continues to be a far and unknown country." This not-very-optimistic statement appears in the introduction of a paper delivered by the commercial counselor of the Norwegian Embassy, Soren Haug, at the last meeting of the Nordic Section of the Polish Chamber of Foreign Trade.

Even if we regard this statement as an exaggeration, the low attendance at the meeting attests to the lack of interest on the part of Polish industry and the foreign trade apparatus in the development of cooperation with our Baltic neighbor. And that is too bad, because the meeting introduced many new facets to our knowledge about Norway and could have been an excellent

forum for a concrete discussion on the feasibility and methods of expanding bilateral cooperation. The Norwegian side, represented at the meeting (aside from the commercial counselor) by the director of the Chamber of Commerce in Oslo, Tore Lauritzsen, expressed its full readiness and willingness towards expansion of economic relations with Poland.

### Growing Economic Potential

The face of Norway changed quite radically over the last 10 to 15 years. This happened due to the discovery of rich deposits of crude oil and natural gas along its coastline. Since that time the petroleum sector is growing at a very rapid rate in Norway, stimulating the allied branches of industry. Last year's production of petroleum and gas reached the record amount of 61 million tons, and the income from foreign sales of these energy carriers made up one-third of total revenues from export.

It was due to the revenues from the petroleum sector that the previously highly unfavorable Norwegian balance of current accounts turned into a good-sized surplus (approximately \$3 billion in 1984). This enabled the government to repay all foreign credits drawn by the state treasury before they were due and Norway's internal finances came into balance. Now, since it has a surfeit of its own capital and is also an attractive field for foreign capital, Norway is on the way to becoming one of the world's financial centers. The declining rate of inflation and the traditionally low unemployment (the lowest in Western Europe, after Switzerland), have exerted a favorable influence on the growth of confidence in the Norwegian economy.

Norway's involvement in international trade is very high, just as is the case of the other Scandinavian countries. It exports over half of what it produces, and purchases goods abroad totaling over 40 percent of its gross national product, i.e., over \$20 billion. However, trade with Poland makes up scarcely 0.3 percent of its total turnovers. Other East European countries, too, have a very small share of Norwegian export and import (a total of 2.06 percent, just as in the case of the Soviet Union (0.9 percent). Traditionally, Norway's important trade partners (approximately 60 percent of turnovers) are Sweden, the FRG, Great Britain, Denmark, and the United States.

In addition to crude oil and its products, natural gas and ships, Norway primarily exports iron, steel, nonferrous metals, chemical products, transportation means and machinery, fish and fish products, and paper products. On the other hand, it imports various types of machines (approximately 25 percent of total imports), automotive vehicles, raw materials, semifinished products, and food.

### Vicissitudes of Trade with Poland

As Soren Haug said, an examination of data on Norwegian-Polish trade turnovers is like looking at the ocean. Sometimes one sees large waves, sometimes small ones, and from time to time the ocean is calm.

The world navigation crisis contributed in great measure to the decline in bilateral turnovers. Traditionally, sales of ships to Norway made up 60 to 70

percent of Poland's total exports. Now, however, the Norwegian commercial fleet is experiencing great difficulties and its own shipbuilding industry has been forced to reduce its production capacity. It is small wonder, therefore, that our partner's interest in purchasing from Poland is minimal. This, in turn, has brought about a reduction in sales of ship equipment to Polish shipyards.

The value of Norway's export to Poland in 1984 (223 million kroner) was half of what it had been 5 years ago, and what is worse, the falling tendency continued. Approximately 50 percent of the sales were in raw materials, energy, and chemicals. We also buy food commodities in Norway, and their share in our total purchases rose from 3 percent in 1979 to 17 percent at present. This may appear somewhat strange in view of the fact that Norway's arable land makes up scarcely 3 percent of its total land surface. Exports of industrial products to Poland are shrinking, and this includes machines and equipment, which is really in contradiction to our partner's growing industrial potential.

Poland's export to Norway looks somewhat better, although its value (479 million kroner) last year was only two-thirds of what it was in 1979. The worst figures were recorded in 1983, and the growth of sales last year totaled 40 percent. Machines and transportation equipment (together with ships) were still the most important items, but now they make up only 38 percent of Poland's total export. On the other hand, deliveries of raw materials and energy carriers are growing at a rapid rate and, what is even better, sales of semifinished and finished products are increasing.

The rather highly unfavorable, for Norway, balance of trade with Poland (imports are more than twice as high as exports) may, in Soren Haug's opinion, have negative repercussions for future turnovers. Nevertheless, while remaining aware of certain limitations and difficulties, consideration should be given to concrete methods for stimulating economic cooperation which would be beneficial to both partners.

#### Not Enough Knowledge

It appears that both sides have an erroneous view of their partner's actual potential and capability. Norway wants to be seen by Polish industrial-trade circles as a highly developed country which employs the latest technologies in industry. But on the other hand, as Soren Haug admits, the capabilities of Polish industry are practically unknown to Norway.

The capabilities of both countries could be better presented through fairs organized in both countries. Although Norwegian enterprises take part in the Poznan and BALTEXPO trade fairs, they do not usually participate in the special fairs, which often bring much better results than the general fairs. On the other hand, Poland's participation in the many fairs which take place in Norway is limited to sporadic attendance at the Shipsgear Fair. However, the symposia organized from time to time by individual firms do not have a large range of influence. Thus the Polish Chamber of Foreign Trade and corresponding Norwegian organizations have an enormous field of operations if they are to fill the gaps in promoting bilateral economic cooperation and increasing the amount of information available on the needs and capabilities of the other side.

Goal: Coproduction

The most difficult, and at the same time the most appropriate, goal should be the development of stronger coproduction ties between the Norwegian and Polish economies. Agreements of this type were the exception up to now, although they occurred in the past in the shipbuilding industry.

It is precisely in the fields of shipbuilding and fishing that our countries have a great deal in common and could closely work together. For example, Norwegian shipyards are interested in doing the finishing work on ships built in Poland. There are other possibilities, also. The Norsk Hydro enterprise would be willing to sell Poland the latest technology for the production of artificial fertilizers in return for future deliveries of these fertilizers. Another Norwegian firm is willing to make its know-how available in the field of modern construction materials, on a similar basis.

We also see a great deal of interest on the part of the Norwegians in coproduction ventures on various levels in agriculture. An example of good cooperation are the rather strong ties between the fur-animal breeders of both countries.

The possibilities of joint ventures on Third-World country markets have not yet been explored but presumably are very great. Of the western industrialized countries Norway allocates the largest percentage of its gross national product (1.2 percent) for developmental assistance in the Third World and will strive to strengthen its position as a supplier to the markets of the developing countries. The limited production capacity of Norwegian industry and the particularly perceptible labor shortage will force enterprises to seek subsuppliers, which, in many cases, could be Polish firms.

Although Norway seems to be a country far from Poland, actually only a few hundred kilometers of water separate the two countries. Crossing this distance should not be difficult for either of these two maritime nations. The first step to bringing the Norwegian market closer to Poland is contact with the Chamber of Commerce in Oslo. Its director, Tore Lauritzsen, has confirmed the Chamber's complete willingness to offer Polish enterprises all possible assistance in obtaining the necessary information, establishing new contacts, in a promotion campaign on the Norwegian market, in collecting past-due accounts, and in any future arbitration proceedings. But let us hope that there are as few as possible of the latter.

Increased Trade with Denmark

Warsaw RYNKI ZAGRANICZNE in Polish No 35, 21 Mar 85 p 8

[Article by (TER): "Closer Ties with Denmark"]

[Text] After an interruption of over 5 years, a successive, now the 11th, session of the Polish-Danish International Mixed Commission for Economic, Industrial, Scientific and Technical Cooperation was held in Warsaw. The talks, which were chaired on the Polish side by the Polish deputy minister

of foreign trade, Antoni Karas, and on the Danish side by Arne Christiansen, chairman of the Danish Committee for Economic Cooperation with Socialist Countries, confirmed the importance which both countries place on the development of mutual relations. The good results obtained last year in trade exchange were noted with satisfaction.

Polish-Danish trade turnovers really did increase greatly in 1984. Our export exceeded the previous year's by 66 percent, amounting to \$155 million, and import rose 44 percent, for a sum of \$40 million. Thus, our favorable balance in trade with Denmark continued to be high.

This surplus, which exceeded \$100 million, was possible due to the doubled deliveries of power coal to the Danish market. Coal deliveries last year amounted to 3.3 million tons, reaching the highest level of the mid-1970's. In addition to coal, we are selling to Denmark various electromachinery products (for a total value of \$13 million), chemical products (\$6 million), textiles and wood and wood products (\$5 million each), as well as glass, porcelain, tapestry rugs and fish. Other commodities which are of interest to us because we have surpluses of them are fruits and vegetables, whose export to Denmark is systematically expanding and amounted to \$4 million in 1984.

Among Polish purchases on the Danish market electromachinery and electronic products traditionally dominate (\$22.1 million in 1984). From Denmark we buy mining and metallurgical machinery, equipment for the farm-food industry, chemical equipment, mineral equipment, etc. Modern inspection-measurement apparatuses and medical equipment are important import items. In addition, Denmark supplies us with mineral wool, pharmaceuticals and other chemical products. As part of its compensation transactions, TORIMEX [consumer goods foreign-trade enterprise] has imported Danish textiles (undergarments, pantyhose, pants) valued at approximately \$2 million, and BALTONA [ship chandlers foreign-trade enterprise] has imported certain quantities of tea, coffee and beer.

It should be added that the Polish foreign-trade enterprise most involved in purchasing on the Danish market is POLIMEX-CEKOP [industrial equipment and machinery]. The total amount of import transactions concluded by this firm last year was \$10.5 million, which was more than one-fourth of total deliveries.

Unfortunately, it will not be possible this year to maintain the high rate of mutual trade turnovers recorded last year, and particularly our export. Poland's deliveries of power coal have essentially reached their ceiling and even if some growth is achieved it will not compare with that of last year. This suggests that it is necessary to discover or develop new fields for future cooperation.

The Danish side shows a great deal of interest in establishing closer contacts within the shipbuilding industry, as was revealed by a visit of a delegation to the Mixed Commission session in Gdansk. Talks with representatives of the shipbuilding industry confirmed that there is a large potential for cooperation and chances for further growth in mutual deliveries of ship gear. Farm-food

processing is another field with future possibilities. The very high, on a world scale, productivity of Danish agriculture and its up-to-date food industry create the necessary conditions for cooperation of interest to us in this area.

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POLAND

ADVISORY GROUP'S ECONOMIC SITUATION REPORT FOR 1984

Warsaw ZYCIE GOSPODARCZE in Polish No 12, 24 Mar 85 pp 1, 7-9

[A Report by the Consultative Economic Council (KRG)]

[Text] This is the third report of the KRG on economic developments in the preceding year. In each report, the subject matter was approached from a different angle.

Now, just as in the first paper, we want to take a look backward--into a not-so-distant future. We often compare the state of the economy and its individual areas to 1982, and sometimes to the pre-crisis period. In this way, we want to draw a sketch of overall development from 1982 up to now. Interestingly, while there were major differences between 1982 and 1983 (even though the scope of changes might have been small), the year 1984 may be treated as a whole together with the preceding one. Despite slightly higher growth-rates and some changes in economic relationships, the last two years are very much alike in many respects, which reflects the fact that there were no significant changes in many principal determinants.

This is the first of all true of the external determinants. The Soviet credit has been granted to us since 1982, and the burden of convertible-debt servicing did not change perceptibly in 1984. It was only towards the end of last year that the restrictions affecting foreign credits and our exports to payments zone II [settlements in convertible currencies] were slightly relaxed. In sum, a measure of improvement in external determinants made it possible better to supply agriculture with livestock feed, and permitted a slight growth of production-supply imports--but the scope of these changes was not so wide as to be considered a growth factor.

No really meaningful change was seen on the labor front. Despite the growth of labor productivity, the employment barrier is still making itself painfully felt, and measures taken in the field are more in the nature of adapting than breaking through. A new element has appeared in the form of enterprise wage systems, but it is too early to assess its motivational value and impact on consumer-market equilibrium. The problem of deeper changes in the organization of work still remains open.

There is a similar story with the fixed assets. Implemented according to plan is only the program on supplying agriculture with machinery and implements--but this is but a small fraction of the overall long-term program. The growth of enterprises' modernization and replacement projects in industry is a welcome development, but it has yet to offset the growing disinvestment.

And finally, there is the complex question of systemic changes, regulations based on these changes, and levels of economic parameters. In 1984, these changes were anything but far-reaching, and only some of them--just as the imposition of linear taxation of enterprise profit [replacing the previously-used progressive formula]--are generally praised. One widely criticized regulation is that imposing the obligation to seek employment through mandatory labor exchanges. As concerns other ones, the opinions are divided--but according to the adopted criteria rather than the general views one subscribes to. The most conspicuous example here is the method of calculating the base for PFAZ taxation. Its supporters point to its positive consequences in the form of curbs on wage payments, while critics place emphasis on disturbances in the functioning of enterprises. Widespread criticism was provoked by the policy of raising the [financial] burdens on socialized enterprises and of using the growing budgetary revenues for the expansion of often discretionary concessions. As far as prices are concerned, the state that developed in 1983 was consolidated in 1984. The allocatory function of prices is very weak.

The systemic problems were discussed in detail in our last fall's study on the functioning of the national economy (Zycie Gospodarcze Nos 45, 46 and 47), so we are not going to repeat the assessments presented in that document.

#### Foreign Trade

There was a faster growth of exports in 1984 compared to 1983--especially as regards sales to payments zone II countries. With the continuing credit-ing from the USSR and the stabilization of net servicing of convertible-currency debt at the 1983 level, this permitted further increase in the [constant-price] volume of imports--which exerted major influence upon growth of the whole economy.

But despite the higher growth-rate, the level of foreign trade in 1984 was still lower than it was in 1979. This was particularly true of imports from payments zone II countries, a result of the need to service debt to them. Without that need, imports from payments zone II might have been 31% higher than they actually were in 1984. This shows how great burden for the economy the debt servicing is, and how far it restricts the economy's expansion opportunities.

Data on foreign trade dynamics are presented in Table 1

Table 1

Foreign Trade Dynamics <sup>1)</sup> At Constant Prices (in %)

Specification	1984	1984	1984
	1983	1982	1979
Exports, total	110.7	117.6	94.0
--payments zone I	105.5	111.2	96.6
--payments zone II	116.1	125.1	91.4
Imports, total	113.3	112.5	72.2
--payments zone I	105.9	107.6	95.1
--payments zone II	119.2	119.5	54.7

- 1) without reexport and import for reexport purposes
- 2) the indices differ from those given by the GUS, since they are based on a different basis and structure of constant prices.

In trade with countries of payments zone I, the 1984 growth-rates were similar in exports and imports, with the volume of trade close to the 1979 figure. On the export side, mention should be made of the higher growth of engineering sales (7.4%) as compared with overall nonconvertible exports-- a trend which continued for the third year running. But if it is to continue for future, our export offer should be steadily adjusted to customers' requirements, with emphasis played on quality and sophistication of products. Imports from payments zone I (at constant prices) were increasing much faster last year as compared with 1982-1983. And in their structure, the share of industrial supplies rose above the 1979 figure (although the absolute constant-price level of overall imports did not yet recover to the level of that year). This was of major importance for an increase in the dynamics of industrial output.

In trade with payments zone II, the annual dynamics of exports tangibly accelerated last year (16.1%, against 6.2% in 1983, and 5.8% in 1982). This was mainly a result of the increased sales of coal (by 44%), food and farm produce (fish, sugar, rapeseed oil, and frozen articles) and products of the light and chemical industries. Engineering exports dropped by 2.3%, reflecting a downward trend which had continued to the past several years. As a result, the share of raw materials and low-processed goods in exports to convertible-currency markets increased further and surpassed the 1979 figure, even though the volume of overall exports to that area was lower compared to that year.

With decreasing growth opportunities for raw-material and low-processed exports, the growth of sales to payments zone II from this year onwards will be determined by the pace of manufacturing exports. In particular, it is important that the downward trend in engineering sales should be reversed--which would also increase Poland's capacity to purchase from the countries in question.

Imports from payments zone II at constant prices increased substantially last year--in contrast to 1983 when they virtually stayed at the previous year's level. The increase was higher than that of the volume of exports, which was possible owing to a stabilization of net servicing of convertible debt at the 1983 level. The debt-servicing ratios were lower--both in relation to exports (23% in 1984 against 26% in 1983) and to imports (31% and 35%, respectively).

Despite their rapid increase last year, imports from payments zone II ran at slightly more than the half their 1979 level. This is particularly true of capital equipment imports, increasing in 1984 by 56% only to reach 26% of the 1979 figure.

A new development in 1984 was the change in the pattern of production-supply imports. While in 1982-1983, the share of industrial supplies was increasing successively, last year saw a clearly faster growth of food-production supplies--a result of increased purchases of meat (102,000 tons; a more than fourfold increase over the previous year in terms of quantity, and over twofold increase in terms of foreign exchange expenses), feed (916,000 tons of oilseed cake, twofold increase) and wheat (more than 2 million tons, increase by nearly 20%). This means that the protection of industrial-supply imports--as reflected not only in increased dynamics but also in growing share at the expense of capital equipment and agricultural supplies--was not longer the case in 1984. If industrial-supply imports from payments zone II were increased last year at the same pace as in 1983 (13%), this was possible only owing to a quicker growth of exports to that area.

An overall trade surplus of Zl 123 billion was recorded last year--exclusively as a result of the need to service convertible-currency debt (trade with payments zone I countries was in deficit). In consequence, the national income distributed was around 3% lower than the national income produced, which provided an important structural factor of inflationary pressure (the excess of exports over imports accounted for more than 4% of the consumption fund).

The relationship between the growth of industrial-supply imports, production of manufacturing industries and exports of manufactured goods is shown in Table 2. The data show that the growth of industrial-supply imports in 1984 was not accompanied by a matching increase in the production of manufacturing industries. Nor did it induce any significant increase in exports, and especially manufactured exports to hard-currency markets. This means that the import content of industrial production increased last year over the 1983 level--a development which is confirmed by returns of KRG questionnaires, showing that for most enterprises production-supply import was not a

principal factor limiting production dynamics. A major role in this respect was also played by an increase in the share of hard-currency import purchases financed from producers' export-revenue allowances (RODs)--from 10% to 15%. This was a factor enhancing enterprise autonomy and adding flexibility to import decisions. The weakening of the multiplier effect of hard-currency industrial-supply imports indicates that there exist other, stronger barriers to the development of industrial production.

Table 2

Growth of Industrial-Supply Imports, Production and Exports of Manufacturing Industries, at Constant Prices (%)

Specification	1984	1984	1983
	1983	1982	1982
Production-supply imports	109.1	113.7	104.2
of which import from:			
--payments zone I	107.0	105.7	98.8
--payments zone II	112.9	127.4	112.9
Production of manufacturing industries (without mining and food-processing)	106.2	114.1	107.4
Export of manufactured products (without fuels, raw materials, metallurgical products and food)	106.2	110.4	103.9
of which exports to:			
--payments zone I <sup>1)</sup>	107.8	120.7	112.0
--payments zone II	103.6	95.9	82.6

1) without reexport

The acceleration of export dynamics in 1984, especially in trade with payments zone II, was possible thanks to higher sales of goods with worse efficiency indicators (food, light industry products). Together with the unfavorable terms of trade and growth of domestic costs, this led to higher costs of earning a unit of foreign exchange and to devaluations of the zloty, thus providing another foreign trade-related source of inflationary pressure, along with debt servicing. This was not countered by systemic arrangements which still failed to sufficiently stimulate producers' interest in raising the efficiency of exports. Thus, the need for introducing the efficiency criterion into the system of export stimulation--which the KRG has been proposing all the time--was underscored once again, and with still greater emphasis.

## Investments

The process of investment, its smoothness and efficiency, were still a cause for concern in 1983 and 1984. The amount of investment resources tied up in projects underway, estimated in 1982 at Zl 1.1 trillion (at current prices), was rising in 1983-1984 by two hundred-plus billion zlotys a year, or an equivalent of 25-28% of annual spending on investment construction in the socialized sector of the economy. The tied-up resources generated wages to the tune of Zl 100 billion a year, which--with growing demand effects not accompanied by a corresponding increase in supply effects--hampered the process of market balancing.

Gestation periods continued to grow. The average of 36-40 months in the 1970s increased to a record level of 50 months, or around a year more. The average delay to standard gestation periods was above one year, against 2-3 months in the 1970s. The delays were seen primarily in central investment projects and in housing construction, even though most projects in these two groups enjoyed priority treatment in access to the required resources. As a result, the plan targets for project completion were met in just 70%--despite frequent postponement of plan deadlines.

The amount of capital needed to complete projects underway stabilized at a level of above Zl 3 trillion. But the investment activity was still excessively dispersed, with project-completion requirements exceeding more than four times the annual level of investment spending. And the average period of gestation for projects underway, as measured by the ratio of completion requirements to annual spending on investment construction, should in principle not exceed two years.

It should be emphasized that there was virtually no serious attempt in 1983-1984 at reducing the extent of investment activity through project discontinuation. On the contrary, central decisions were taken to resume some of the previously-halted projects.

As far as the pattern of investment activity is concerned, the past two years saw a clear tendency towards more projects with lower cost-estimate value, which was a welcome development.

Major changes occurred in the structure of investment spending. The share of spending on the so-called nonproductive sphere, standing at 20% and less in the 1970s, increased to more than 30% of all capital expenditure in the socialized sector of the economy--which, naturally, had the effect of reducing the proportion of spending on the productive sphere, and industry in particular. With the 1984 investment spending in the socialized sector standing at 61% of the 1978 figure, the corresponding level in industry was 54%.

This poses a very difficult dilemma for economic policymakers. On the one hand, the great, long-term neglect of nonproductive-sphere facilities, adversely affecting the possibility of rendering various services to the population, warrants a concentration of the investment effort precisely on

this sphere. But on the other hand, the low level of productive-sphere spending, which prevents necessary modernization, and sometimes even failing to prevent disinvestment, poses a danger of thwarting growth opportunities in the immediate future.

This is hardly the only dilemma that has to be solved as part of investment policy if the latter is to be finally based on clear-cut selection criteria. For example, it should be decided whether this policy is to focus on long-term projects or rather on the solving of urgent tasks of the present. Should support be given to the expansion of raw-material and power-generation potential or rather to projects aimed at economies in the consumption of energy and material resources? Should new factories be built or should the existing ones be protected against the danger of disinvestment?

If these and other questions remain unanswered, the major principle of investment policy will remain to be the stubborn continuation of the old program.

It is the position of this Council that the investment projects should be oriented in a much higher degree than before to the alleviation of barriers to growth--the barriers which may block further development long before long-gestation projects bear fruit. We have often expressed a conviction that the restoration of equilibrium is decisive for the rationalization of the Polish economy, and that this goal will be hard to attain without changes in the structure of investment towards higher share of quick-return projects which do not increase the amount of tied-up capital. We are of the opinion that preferential treatment should be accorded to modernization projects, especially those saving scarce factors of production, at the expense of the construction of new projects, and particularly at the expense of the raw-material/energy sector.

A major change in the investment sphere was made possible owing to parliamentary legislation endowing enterprises with a freedom to set and execute their investment plans. As a result, enterprises could increase their capital spending substantially. In 1982, independent projects of enterprises financed with their own funds accounted for just 5% of socialized-sector spending. Now, the figure has risen to 32%. This is a major systemic change, influencing the course of real processes. It offers a chance of reversing the decades' long tendency in the Polish economy towards investing in so-called development projects at the expense of replacement/modernization projects. This tendency has adversely affected the efficiency of investment activity, becoming a major factor behind the adherence to outdated productive potential.

Research findings show that upwards of 50% enterprise-financed spending in 1984 went to replacement/modernization projects, 39-40% to development projects, and--contrary to some opinions--only 10-11% to welfare projects.

In sum, the substantial growth of enterprise investment projects in 1983-1984, reflecting partial realization of the deferred replacement/modernization demand, better served the declared economic policy goals--fight against

inflation and disinvestment, changes in the structure of production, and higher efficiency--than the continued central projects. But "better" does not necessarily mean "well," and therefore the emerging favorable tendencies should be consolidated.

In practice, however, various difficulties crop up. Attempts are made at reducing enterprises' capacity to invest--by means of increased taxation, increased share of depreciation charges captured by the budget, and credit curbs. And an opinion is voiced--very convenient for the Center--that the financial resources earmarked by enterprises for investment activity are excessive as compared with the existing construction potential.

But as shown by the findings of a recent poll taken by the KRG among enterprises, an overwhelming majority of them (76%) have no problems with spending the development funds and have too little of these funds compared to their requirements.

It is claimed sometimes that enterprise projects have the effect of petrifying the structure of the economy, but in reality the reverse is true. By modernizing their productive potential, and by introducing material- and energy-saving technologies, enterprises act towards the creation of more efficient structures.

The centrally-allocated and centrally-controlled resources (bank credit, budgetary subsidies) offer little help for enterprises' investment activity, since their great majority is spent for the financing of central investment projects or, at best, the former central projects ceded to enterprises for continuation. The decisions concerning the central projects were taken in the past--under different conditions, with different opportunities and different structure of goals, and without clear-cut efficiency criteria. Therefore, the question about a correctness of such a policy--often asked in various documents of the KRG--still remains relevant.

## Industry

After the breakdown at the turn of the 1970s, 1984 was the second year running of industrial-output growth (the upward trend began in the last months of 1982). But the growth-rate decreased slightly--from 6.7% in 1983 to 5.3% in 1984. In manufacturing industries, the drop was from 7.1% to 5.5%, while in mining the growth-rate actually increased from 2.3% to 2.9%, respectively.

A slowdown or stabilization of growth-rates were seen in nearly all manufacturing branches, with the exception of the garments industry (increase from 2.6% to 7.8%).

The 1984 level of industry's sold production reached 94.2% of the highest pre-crisis level, recorded in 1979. The consequences of the collapse were thus largely offset, with major changes occurring in the structure of industrial production.

While in some branches, such as power generation, fine ceramics, or precision engineering the 1979 levels were topped substantially, other industries, e.g. construction materials, metal working, and textiles, still have a long way to go.

As a rule, however, the changes in the structure of production did not reflect a new pattern of demand but instead came as an undesired result of various kinds of barriers and constraints. Production of many sought-after consumer goods and production supplies is still very low. The failure to reach CAP-1984 production targets for one-third of GUS-reported products shows that bottlenecks hampering the desired changes in production structure still exist--even if the CAP indices might not always be correct.

While in global terms the industrial output is close to the pre-crisis level, the index of new-value production\* is still much lower. In 1984, industry's new-value production was 15% down from 1978. In particular, steep decline was recorded in the coal-mining and food-processing industries, where the 1984 levels represented as little as 40% and 60% of the respective 1978 figures.

The big differential between the indices of new-value and global production testifies to the deterioration of efficiency. But it should be remembered that in a period of production slump, as an objective regularity, the share of production costs in global production goes up, and that this regularity influenced the differential between the two indices in 1979-1982.

In the first year of post-crisis production growth (1983), following a faster growth of global production compared to new-value production, the differential increased, but in 1984 the two categories were rising at the same pace--5.3% and 5.2% respectively--which should be considered a welcome development (even if one remembers about the multitude of factors influencing the relationship between the global and the new-value production).

An assessment of the situation in industry made on the basis of aggregate data has always been of little use, since aggregates are often misleading. Hence, the necessity of collecting more information about the structure of the sample under review. One valuable form of enriching the available information--often used by KRG--is provided by questionnaires.

In general terms, it can be stated as a preliminary hypothesis that in the past years production was determined in a large measure by the availability

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[\*The new-value production ["produkcja czysta"] is a portion of national income (as computed in socialist countries) generated in a given economic unit or sector. It constitutes the part of global production which remains after deducting the so-called material costs, or the value of the consumed means of production--energy, fuels, raw and intermediate materials, external material services, and depreciation--ed. note.]

of production factors. The impact of the reform upon production performance--and especially upon efficiency--is a complex issue and is likely to be revealed only gradually. Verbal testimonies on the subject are highly diversified, failing to provide a firm basis for conclusions.

Thus, the reversal of downward trends (starting from the end of 1982) is primarily a result of improved supplies of energy, raw materials and intermediates to industry. A big role was played by the domestic mining industry which not only provided the manufacturing sector with raw materials but also, by enabling the expansion of exports, permitted an increase in production--supply imports.

The problem of the relationship between growth of material resources consumption and production growth, i.e. the problem of changes in the ratio of material input to final output, is not unambiguous. According to computations on the consumption of several dozen materials in 1983-1984, this ratio slightly decreased in industry. But a question arises about the credibility of indicators based on selected materials. So it is by no means certain that the overall material-resources content in industrial production is reduced, although there are grounds to believe that the structure of consumed materials has been changing.

Our hypothesis is that in 1979-1983 these changes consisted in the substitution of domestic materials for imported ones. While industrial-supply imports fell in that period by as much as 28.5%, the industrial output (without mining and food processing) dropped by just 8.7%. There was no such substitution in 1984, because the availability of domestic supplies--as shown by the recent KRG questionnaire--was not better than that of imported materials.

As far as the labor factor is concerned, it supported growth only in mining, where employment increased by 2.3% over the 1983-1984 period. In the manufacturing sector, it went down by 2%. And the greatest drop was in shopfloor employment--although this was offset by the increased number of hours worked by the average worker.

Employment changes in individual sectors in 1983-1984 were highly diversified--from up 9.5% in power generation to down 7.1% in textiles. The causes are not easy to identify. For example, there is no clear correlation between the level of wages in a given branch and the employment dynamics. Nor can any signs be noted of the efficacy of the system of mandatory labor intermediation. A hypothesis about random character of employment-pattern changes so far cannot be dismissed. Employment is still a problem for enterprises, whose demand for labor has always run much above the supply. Adding to this is the high turnover of labor.

The productivity of labor in industry, as measured by per-employee sold production, topped the 1979 level by 1.6%, and--when the shorter working time is taken into account--by 5.5%. These indicators are sometimes juxtaposed with data on fixed-asset growth per industrial employee

(30% in 1979-1984), which is supposed to prove that labor productivity was increasing at a much slower pace than the capital-to-labor ratio.

But the impact of disinvestment should not be neglected here. The industrial fixed assets have been increasingly wearing down, which is bound to reduce their productivity. The net value of industry's fixed assets, after deducting depreciation, increased by just 11%, while the net value of the active portion of assets, i.e. machines and equipment, where disinvestment was greatest, actually declined.

The pattern of disinvestment is irregular. Some areas are hit very badly. With the average coefficient of machinery depreciation in industry at the high level of 58%, there are branches where it exceeds 75% and even 80%, and these include both traditional industries (e.g. haberdashery) and sectors which in theory should serve as carriers of technological change (e.g. electronic measurement equipment). This testifies to a random character of assets-reproduction processes, not adjusted to the requirements in the field.

The nature of the new productive potential is another factor that should be taken into account in analyzing the relationship between fixed-assets growth and labor-productivity dynamics. Most often, this potential took the form of new production facilities, which means that instead of contributing to labor economies, it added to the demand, thus intensifying the labor-market perturbations. The same holds true for the demand for material resources. As a result, there were substantial delays in reaching target capacity at newly-built production facilities.

These delays, known in industry for a long time, increased still further in the past years, approaching an average of two years in 1984. This means that the new and the modernized production facilities, adding to industry's fixed assets, often fail to bring about a corresponding increase in production. According to enterprise reports, the main causes of the delays included undermanning and shortages of production supplies (sometimes their poor quality).

These adverse developments--randomness of changes in the structures of employment and production concentration of disinvestment effects in some branches, and lengthening periods needed to attain target capacity--prove that the problem of rational allocation of labor, production supplies and investment resources is pivotal for prospects for industrial output growth. The existing mechanisms of allocation do not stand the test, aggravating the bottlenecks rather than alleviating them.

That these bottlenecks are widespread is shown by the fact that the overall 5%-plus growth of industrial output was accompanied by decline in a substantial portion of enterprises (7% of their total number). Leaving aside mines, where this could have been caused by worsening natural conditions, and makers of matches and tobacco, who might have been hit by the drop in demand, the fall of production in the remaining enterprises was

determined by the availability of production factors. These as a rule are industries with deeper than average drop in employment or with higher than average depreciation of machinery.

The problem of allocation is connected with that of production-factors management at enterprises. The present systemic arrangements restrict the freedom of enterprises, undermine the role of profit (by failing to provide conditions for so-called tight-money financing) and are not stable. As such, they fail to stimulate higher efficiency of employing these factors which, when coupled with their irrational allocation, is bound to affect prospects for further growth of industrial production.

The overall financial situation of industrial enterprises in 1984 was good, with profits going up by 24.5%.

The net profitability of industrial enterprises (profit-to-costs ratio) increased slightly last year--from 12.4% to 12.8%. The most profitable were enterprises in the precision-engineering and machinery industries (net profitability indicators at 28.6% and 22.2%, respectively), while those in the food-processing, coal-mining and metallurgical industries were the least profitable (6.5%, 6.7% and 8.7%, respectively). The level of profitability, however, is not correlated with the availability of financial resources for development purposes. According to National Bank of Poland (NBP) analyses, most of these resources are at the disposal of enterprises in no other sectors than the coal-mining and metallurgical industries, and also in the chemical industry.

A great influence upon the financial situation of enterprises was exerted by the budget. The share of budgetary taxation and subsidies in the disposable portion of sales revenue (financial accumulation + financial contributions counted as costs + depreciation) remained at a very high level last year. It was only the structure of contributions to the budget that changed--with the share of sales tax dropping and the proportion of cost-forming financial contributions and profit taxation increasing.

Mention should be made of the rapid growth of grants and subsidies (by 25%), especially in coal (up 58%) and chemicals (up 60.5%, with 82.5% increase in the nitric fertilizer branch).

In the context of subsidies, two aspects should be mentioned. It is not necessarily the addressees of subsidies that enjoy the final benefits. And without a detailed analysis, it would be hard to ascertain which subsidies result from the setting of official prices below the level justified by rational costs of production and which ones cover the costs of mismanagement.

The corporate income tax rose at a lower pace than profits, which seems to indicate increased scope of tax concessions.

The FAZ contributions increased substantially--by 87%--but this shouldn't be taken to mean that the FAZ system was working smoothly. As a result of lavishly granted concessions, the sum total of FAZ contributions was much lower than the production growth index and the systemic regulations now in force would indicate.

At the time of writing, we knew only fragmentary statistical data, so we are treating this part of the report (especially as regards the financial situation) as preliminary. We want to come back to the problem later, and we will try to take into consideration the impact of new systemic regulations.

### Agriculture

The 1984 grain crops were the highest ever. But it would be hard to claim with authority that this represented a reversal of stagnation in land productivity, continuing since 1973. Last year's conditions were exceptionally favorable for vegetation and harvesting, so it seems that we are still facing the problem of restoring growth trends in farm production.

The average annual increments of land productivity in 1955-1975 ran 0.7 quintal of grain equivalent per hectare. There was a similar increase in grain crops. The factors behind this increase seem to include the growing use of mineral fertilizers (especially nitric fertilizers) and the introduction of new varieties of grains and potato. In 1975-1980, the consumption of nitric fertilizers rose by just 5 kg of nutrient content--to 69.9 kg/ha--and the figure for the 1984 crop season was 70.6 kg.

An Analysis of the relationship between the crops level and the consumption of nitric fertilizer (the principal crop-boosting factor) indicates some improvement in management of state farms (PRG). It may be expected that the economic reform was a factor behind this. In two successive four-year periods, the PRGs' consumption of nitric fertilizer per 100 kg of grain crops dropped from 3.4 kg to 3.0 kg. But such simplified comparisons, based on average data, do not permit any far-reaching conclusions.

In animal production, 1984 was much better than the previous year. After the drop in production and herd numbers in 1981--coming, most probably, as a result of poor harvests in 1980--1982 saw a 5% increase in the hog population. But signs of a renewed slowdown in pig rearing emerged as early as the end of that year. The downward trend was deepened in 1983 by the continually low level of concentrated-feed supplies to agriculture (3.8 million tons) and by the reduction of protein-feed imports to one-third of the requirements (0.4 million tons).

In the 1983/1984 season, the pig-rearing trend reversed, as reflected in the 7.8% increase at private farms in June (6.9% in agriculture as a whole), coupled with a 10.5% increase in the number of sows and high prices for piglets. This new trend continued, and at the end of 1984 hog numbers were increasing at a higher rate--10%.

Cattle breeding is stagnated, following the reductions in beef cattle in 1981 and 1982. As a result of the fall in hog numbers, pork production decreased--by 10% in 1984 from the previous year--but this was offset by increased production of beef and poultry meat.

The overall production and procurement of meat (in carcass weight) stood in 1984 at the same level as in 1983--2.5 million tons and 1.8 million tons, respectively. But it should be remembered that this level is 20% below the 1978 figure, and in per-capita terms is only 2 kg (3%) higher than in 1970.

Milk production, after falling from 16.6 billion liters in 1978 to 14.8 billion in 1982, was increasing gradually, to reach 16.4 billion liters last year. Milk procurement rose from 10.6 billion liters in 1983 to 11.3 billion in 1984.

State procurement's share in production decreased in meat (from 80% in 1978 to 71%) but it clearly increased in milk (from 60% to nearly 70%). It is likely that the consumption of milk as pig feed was reduced, but on the other hand--with farmer families deprived of the right to buy rationed butter and, still worse, meat--farmers' own consumption of produce was bound to increase. In 1982, animal-protein consumption at farmer families was estimated at 49 g/day, against 45 g in wage-earner families. It can also be guessed that the volume of meat traded outside the socialized distributive channels increased on the 1982 level.

The ratio of grain and concentrated-feed consumption to animal production does not yet permit an assessment of whether or not the "grain intensity," placing so great a burden on the economy in the 1970s, has fallen. It is only in the PGR sector that this ratio was clearly improving since 1982, dropping by 9% from the 1976-1980 average. At the same time, the scope of irrational breeding of meat livestock was reduced. It can be expected that this pattern was not changed in 1984.

The reason why we have confined ourselves to grain and concentrated-feed consumption per unit of animal production is that the corresponding estimates for roughages are much less credible, and as such cannot be used for the purpose of assessing changes in animal feeding and its efficiency. We can only point to probable changes in the structure of feed consumption as reflected in the substantial decrease in feed-potato resources at private farms, against the second half of the 1970s. Compared to average figures of that period, potato harvests in the past three years were 20% lower (at 34.6 million tons), and consumption might have dropped by 35-40%.

It is difficult to assess how the successive changes in procurement prices influenced production--with the exception of the unquestionable impact of milk prices. Grain-price increases in 1983 and 1981 (as part of the former, the pattern of prices was changed in favor of wheat and barley) were accompanied by simultaneous decline in the hog population in 1983 and by the exceptional increase in grain crops in 1984--by 2.3 million tons, or

10.8%. Procurement increased by 1 million tons, and shipments of concentrated feed to agriculture rose by 0.7 million tons. Farm inventories might have increased.

There are grounds to believe that the stimulating impact of official procurement-price increases upon the production and supply of agricultural products is being exaggerated. In fact, it is limited by the market imbalance and the weakening of motivation to expand production, in view of the insufficient supply of producer and consumer goods to agriculture.

1983 was the first year in which the ratio of free-market to procurement prices for agricultural products stopped increasing. In 1984, the differentials were further reduced and there was only a small increase in market prices. In December, the prices were as a rule lower than a year earlier. It should be emphasized that agricultural trends and the sector's production capacity do not indicate any major increase in meat production. There are no grounds for expecting a change in meat-market supply in several years ahead. For this reason, it would be purposeful to consider what methods are to be employed in order to abandon meat rationing.

The growth trends in agriculture, appearing since 1983, may be consolidated in the coming years, provided that--next to positive factors, ensuring conditions for growth in output and labor productivity--economic coercion is applied, linking private-farmer incomes and wages at socialized farms to production growth and efficiency.

A comparison of indices for production growth in agriculture at constant (1982) and current prices shows that last year's changes in the pattern of prices were favorable to farmers. A tangible progress was also recorded at the PGR farms, as reflected in higher indices for net final production, compared to gross final production, and in very high indices for new-value production. Naturally, this was in part influenced by the very good conditions in 1984 and by the preceding dry year, which was "easy" for agriculture by requiring lower inputs of labor and energy for growing and harvesting.

The PGR performance, despite the deformation by direct subsidies, seems to confirm the correctness of the new economic system, introduced in 1981.

But an analysis of the situation in private agriculture--where the growth-rates of production and efficiency have decreased of late--leads to less optimistic conclusions. Proceeding from an assessment of new-value production growth, it can be conjectured that the farmer population's nominal incomes increased last year at a much lower pace (below 14%) than in the wage-earners' group, and that their real incomes slightly dropped. Changes in the situation from one year to another are normal in agriculture. But in the present market conditions, a more important thing than the drop in incomes is that income differentials among farmer households are widening--and to a greater extent than wage-earners' incomes.

Results of studies into the distribution pattern of incomes in 1984 are not yet known, but our observations seem to indicate a coexistence, in extreme cases, of an absence of motivation to expand production at farms with relative excess of money and difficulties with maintaining the level of consumption (still less, with increasing expenditures) at many small farms.

The worst economic situation is probably experienced by small and medium-sized farms operating on poor soils and deprived of additional sources of income--all this in a situation where opportunities for outmigration from the countryside are limited. Trade in land through the State Land Pool (PFZ) continued to fall last year.

Farmers' own feed resources (after the good year) and improved situation in the market for means of agricultural production seem to provide a basis for the expansion of animal production in 1985, and for an increase in herds. But it should be realized that the 1985 crops may turn out lower than the average for the past four years.

A factor which will determine farmers' production-oriented attitudes in the future is likely to be the coercion to keep and raise incomes, rather than a further increase in prices. This opinion--which is debatable--rests on the noticeable absence of any direct positive correlation between production and income trends. All too often, these trends are affected by detailed regulations concerning prices, market relations and the functioning of economic organizations.

Despite the decline of state procurement's share of private agriculture's commercially-marketed production (compared to 1978 and 1979), the extent of procurement operations and the prices paid by procurement agencies are of decisive importance for farmer incomes. Compared to 1983, this share dropped only insignificantly (from 84% to 83.2%--against 88.6% in 1978). When the analysis is confined to private farming, the proportion dropped between 1983 and 1984 from 73.2% to 72.1%, but it was higher than in 1978 (69.3%).

The procurement system fails to service agriculture efficiently, and it leads to losses in production (including losses in farmers' working time). This is a result of not only insufficient facilities (for storage, drying, quality inspection, etc) but also of the excessively centralized distribution. The protracted period of food rationing favors a centralization of decision-making and produce distribution. The excessive extent of official procurement prices has the effect of hampering an improvement in cooperation between agriculture and industry, lengthening transport routes along which produce is carried, and weakening the influence of industry (and procurement agencies) upon produce quality.

The elimination of these shortages does not seem feasible without a reform of the procurement-price system, and principles and extent of state-farmer contracts [for produce delivery and related shipments of scarce items to farmers]. Among other things, procurement prices should depend on produce

quality and delivery dates, and not on the form of procurement (as is the case when, e.g., high procurement prices are tied to state-farmer contracts for grain delivery).

The organisation of the rural market and the system under which it operates do not favor an efficient utilization of raw materials or improved economic performance of the food-processing industry. The industry has to be subsidized--not only as a result of policies supporting either the farm producer or the consumer, but also in order to cover the costs of inefficiency and sheer waste.

In some segments, a need emerges for considering an adequate development strategy. One such area is the sugar industry which extends beyond measure the sugar-processing season in order to obtain surpluses for export (the unit cost of sugar produced in the last two weeks of the season is twice as high as the cost borne at the best time). Another is the dairy industry whose processing capacity is also much below the volume of procurement and market demand (vegetable fats management is a related problem).

All this warrants an opinion that the most immediate employment for the available investment resources should be to improve rural infrastructure and agriculture's economic environment (distribution and food processing). As well as easing economic difficulties, such projects would be instrumental in tackling social problems which affect living conditions in the countryside and rural youth's vocational choices.

#### Consumption

In conditions of unbalanced market, changes in the level and structure of consumption depend in the first place on the supply offer, which in term is largely determined by the consumer-production potential. The supply offer may be enriched by imports, but in 1984 and earlier this factor was instrumental in improving the market-supply of just several articles (coffee, tea, washing machines, refrigerators). On the other hand, production-supply imports were on the rise.

Other economic factors such as changes in the distribution patterns of real wages and incomes, prices, inflation, evolution of households' preferences, etc., were of secondary importance. Their effects were incomparably lower than they would be in conditions of a normal market.

#### Consumer-Market Supplies

Tangible increases were recorded last year in the sold production (at constant prices) of major industries making final consumer goods. The figure for the electrical/electronics industry was 11.6%, for garments 8.9%, and for precision engineering 9.6%.

But measured as they were against the low production levels of 1983, these increases were hardly noticed on the market.

While in 1983, there was only a 0.89% growth of consumer-market supplies for 1% growth of overall industrial production, the corresponding 1984 figure was 1.04%. This means that, despite the unfavorable situation in previous years the dynamics of consumer goods supplies was higher than the overall industrial dynamics.

But the coefficient of elasticity of consumer-production growth set in the National Socio-Economic Plan (NSEP) for the whole three-year [1983-1985] period was much higher--1.4%. It seems that in the years ahead the indicator should further improve.

### Food

The consumption of food increased slightly last year, mainly as a result of increased market deliveries of cereal products and good supply of milk and dairy products. It is believed that the demand for dairy products, with the exception of butter, is met. This is all the more important as the per-capita market deliveries of meat and meat products decreased further, even if insignificantly, in step with the deterioration of their structure. The dairy products are thus becoming a major factor in supplementing the consumption of animal proteins. An important role in improving the supply, especially in the fruit and vegetables segments, was played by the private sector.

Research findings on households budgets in 1984 and 1982, and data on the level of food deliveries in 1984 show that the diet of all major social/occupational groups is similar, with farmers and part-time farmers exceeding the nutritive level B (considered by physiologists to provide sufficient nourishment at a moderate cost).

### Footwear and Garments

After deep shortages of footwear in 1981 and 1982, the past two years witnessed a strong growth of production. While in 1979, market deliveries ran at 2.8 pairs per head, the 1984 figure was 3.7. This led to the balancing of the market. The increased shipments of textile/rubber shoes last year enriched the pattern of supply perceptibly.

A positive assessment of this market segment, however, is mitigated by low product quality.

In the textiles/garments market, very high dynamics were recorded in the past two years in cotton and cotton-like fabrics (25%) and wool and wool-like fabrics (nearly 23%). Despite such substantial improvement, the 1984 level of market deliveries stood at just 80% of the 1979 figure, with deep shortages of garments from the previous years leading to a substantial accumulation of unmet demand.

A worrying tendency was seen last year towards the reduction of market shipments of some articles for children and youths, covered by operational programs. These shipments were lower than the corresponding CAP targets and lower than the 1983 deliveries.

### Consumer Durables

The production and supply of many consumer durables decreased substantially in 1981 and 1982, with the supply of cars providing the only exception. In 1984, output reached 279,100 cars, and market deliveries 211,600 cars, or 97.1% of the 1979 level. This took place in step with the deterioration in market supplies of tires, batteries, and gasoline. Car numbers were thus increased at the expense of deteriorating conditions of operation and maintenance.

Despite the big demand (which incidentally, may subside with successive price increases and gasoline problems), it must be stated that the societal effort was not well directed. Instead of expanding private motorization, greater emphasis should be placed on public transportation, and cars should be exchanged abroad for refrigerators, washing machines and primarily garments.

The market deliveries of refrigerators and deep freezers went up 26% last year, to 880,000 units. With the steep fall in domestic production--536,600 units in 1984, or 70% of the 1979 level--the situation was retrieved by imports. The goal here should be rapidly to increase the domestic production and keep a high level of imports.

There is a different situation as far as the washing machines are concerned. In view of the general switch towards automatic machines, even a manifold increase in production will not meet the steadily rising demand. Owing in a large measure to imports (120,000 machines), the 1984 level of market supplies of automatic washers (410,000) was almost 30% higher than in 1979. The domestic production should be at least doubled, to reach an annual level of 700,000-800,000 units, while the nonautomatic machines should be scaled down to 500,000-550,000 a year, and still less after 1990.

The supplies of radio sets, despite annual increases of several percent in recent years, failed to meet the consumer demand.

In TV sets, the market deliveries dropped from more than a million units in 1979 to 727,300 in 1984. By 1990, production is planned to have increased to 780,000 sets--with black-and-white sets falling by a third and color units going up. This target seems to be highly insufficient. It also seems that the assumed pace of the substitution of color TV sets for monochrome ones is too high. The program of production and market supply in this group needs reconsideration.

Equilibrium in consumer durables markets provides an important barometer of general improvement in the economy. The KRG has for some time now proposed that measures should be taken to balance [selected] segments of the market, since this would provide an important source of individual sense of stability and public optimism.

### Structure of Household Expenditures

Changes occurring in the pattern of households' expenditures are a consequence of changes in supply, real incomes, price dynamics, and primarily of changes in the ratio of food to nonfood prices.

Up to 1981, changes in the spending of incomes were similar in all social/occupational groups. In the first place, the share of expenditures on food, fuels, and energy was falling, while a small increase could be noticed in spending on hygiene, culture and transportation. These, no doubt, were the signs of improvement in public welfare and modernization of the structure of consumption.

In 1981, despite problems with production supplies, the previous years' trends did not change. It was only the year 1982 that brought about dramatic changes in the amount and allocation of household incomes--primarily as a result of the breakdown in market deliveries of basic consumer goods, accompanied by huge, widespread price increases (which, despite compensation, led to a drop in real incomes by 20% and more). For example, the share of food expenditures in wage-earner households increased from 34.2% in 1981 to 47.8% in 1982, while in pensioner households the respective figures were 46.4% and 57%. For the first time, the spending on meat exceeded the expenditure on garments and footwear. The share of savings decreased.

These reactions to changing conditions began to recede in 1983, with households starting to adapt to the lower level of living conditions--in a slow processes developing with varying intensity. The average 1983 level of real incomes did not change in the group of wage-earners, and it dropped slightly in the other social/occupational groups. Just a year after the structural change in expenditures, a clear tendency emerged towards abandoning the protection of food and irrational purchases in favor of a comprehensive meeting of requirements--both the present and the future ones.

After the January 31, 1983 increase in food prices--with a small and diversified real-incomes dynamics--the share of food increased slightly, by 0.4-1.8 point. It seems that with further increase in the supply offer--and especially in nonfood articles--a "food-oriented model of consumption" will not consolidate, and that the tendency towards restoring the 1970s pattern of expenditures will continue.

## Incomes. Prices and Equilibrium

### Incomes of the Population

By 1981, the average real incomes were on the rise. They dropped by 20% in 1982, and stayed at an almost unchanged level a year later. In 1984, a slight improvement was seen.

The shortcomings of the notion of real incomes in conditions of economic imbalance are well known. The traditionally understood real value of incomes is different than their actual market capacity to purchase. But such reservations do not vitiate the cognitive value of this economic and social category, especially for long-run analyses.

### Wage-Earner Households

The peak years for real incomes in this group were 1980 and 1981. An average decline of 21% was recorded in 1982 when the welfare of the whole of wage-earner population was close to the level obtained in 1973. This nine-year retreat was not the same for all segments of the group.

In 1983, with unchanged level of welfare in the whole, a high degree of incomes redistribution among its individual segments was noted. In particular, the real-incomes drop affected the worse-off households.

According to early estimates for 1984, the real incomes increased on average with the situation relatively improving for the lower-income segment and worsening for the best-off groups.

### Pensioner Households

The best year for this group was 1979. In 1982, the average real income was 20% below the previous year's level. As a whole, the group of pensioners--which stands out for the biggest flattening of the incomes curve--saw their welfare level falling back to 1976.

The year 1983 brought about further decline for nearly all segments of the group. The worst hit were low-income families, where the extent of losses was comparable with those suffered in 1982.

In 1984, with a very small increase for the group as a whole, incomes of around 10% of pensioners fell by more than 30%. After the short-lived narrowing of disproportions between wage-earner and pensioner incomes in 1982, the present differentials are close to those recorded in 1980-1981.

The proposals for the raising of the level of pensions--in response to the intended price increases--call for further redistribution of social benefits. The degree to which they are to be levelled off may undermine the principle of linking the amount of pension to the wage level received prior to retirement.

## Farmer Households

The most successful year for this group was 1981, when the increases of state-procurement prices went far ahead of the price growth for producer and consumer goods. In the next year, the average real incomes fell by 22%. The welfare of the entirety of farmer population was reduced to the 1978 level.

1983 saw a small increase in average terms, with the deepening stratification within the group.

Last year, with real incomes dropping by around 4%, the farmer households lost the nominal-incomes advantage over wage-earner families, won back in 1981. The excess was highest in 1982, and in 1983 was more than halved. Welfare diversification was on the increase. More than 15% of households saw their real incomes rising by at least 40%, while in 25% of households they dropped by at least 30%.

## Part-Time Farmer Households

The highest real incomes in this group were recorded in 1981, but already next year they went down by 14%. The whole group's welfare fell back to the 1977 level.

In 1983, the previous year's level was kept, with no major redistribution processes.

In 1984, the real incomes of part-time farmers increased by 2%.

## Concentration of Wage-Earner Incomes

After the deep levelling of wage-earners' income differentials in 1982, the later years saw reverse developments--sometimes quite accidental. This process is favored by the wage-growth mechanisms, now in force, and the relatively high level of price inflation.

The pace at which the [previous] incomes distribution pattern was restored in 1983-1984 was by no means smooth. 1983 saw a relatively high growth of incomes concentration (with stagnated average real incomes), and the scope of wage-earner incomes' differentiation was similar to that of 1981. But in 1984, it is estimated to have reduced, as compared with the previous year.

Future course of the processes of wage-earner incomes redistribution is difficult to project. If the changes in incomes concentration were influenced exclusively by the conditions in which the national economy is functioning, then it might be conjectured that the process of adaptation of the incomes distribution pattern has almost led to a state of relative equilibrium. This process has been following the path of trial and error, with decreasing amplitudes of oscillations around the target state.

But on the other hand, it would be hard to overlook the fact that the process of changes in the incomes distribution pattern is influenced by price inflation. Of decisive importance here is the ratio between the growth-rates of prices for food and nonfood goods and services. The years of quicker growth of food prices (1982, 1984) were also the periods of decreasing differentiation in the groups of wage-earners and pensioners (as a result of various forms of compensation).

As for the quicker growth of nonfood prices, it is a factor stimulating the concentration of incomes. This shows that the two forms of price inflation provoke different kinds of defense reactions on the part of the public, and that in different groups of the population they differently influence the opportunities for the realization of economic aspirations.

These comments do not take into account the changes in the nonfarm private sector, where high degrees of incomes growth and concentration seem to be the case.

Nor do we know the estimates for so-called parallel circulation of incomes. The previous years' computations indicate that the 1981-1982 explosion in parallel circulation was followed by stabilization at a relatively high level. In 1982, it absorbed every ninth zloty from the flow of the population's current incomes, while in 1983 and 1984 it captured every tenth zloty. In 1983, the parallel circulation of incomes absorbed about Zl 385 billion. This amount deforms the original distribution patterns of incomes and savings.

#### Wage Differentiation

Compared to the 1970s, the pay hierarchy of individual sectors of the economy changed substantially in 1982. The worst demoted were: science and technology (from 115% to 89% of the average national pay), state administration (from 105% to 92%), construction (from 114% to 104%), culture and arts (from 87% to 77%), transportation (from 107% to 99.5%). The biggest promotion benefited forestry (from 85% to 103%), health care (from 77% to 85%), and industry (from 105% to 111%).

The year 1983 brought about a consolidation of the position of industry, a restoration of previous positions of construction and science/technology, a steep decline in health-care wages (down to 72% of the national average), and continuing fall of salaries in administration and justice.

The 1984 trends show some signs of a return to the pre-crisis pay hierarchy, coupled with the consolidation of leading positions of industry and construction. Agriculture and forestry lost the previously gained status, while science/technology, administration, and finance/insurance were gradually moving upward. The other budgetary sectors--although traditionally at the bottom of the tables--were slowly reducing their distance to the national average. The overall dominant position of industry is accompanied by strong differentiation within that sector.

In 1984, the sectoral average was exceeded in five out the twenty major branches of industry--including coal mining (93% above the average wage in industry), nonferrous (50% more) and iron/steel (22%). In ten industrial branches, the wages are lower than the average for the national economy as a whole.

An analysis of the post-1978 changes in the wage order reveals an upward movement of the coal and nonferrous industries and the consolidation of the iron/steel industry. Although the coal industry workers are a small group as far as their numbers are concerned, their growing wages have a strong demonstration effect. A still stronger effect is probably made by all kinds of prerequisites in money and in kind.

The position of the machinery and transport-equipment industries weakened in 1982 and 1983. In 1984, their workers were successfully fighting for relatively higher pay. Also improving was the position of the chemical, glassware and textile industries. The position of the remaining branches, occupying the bottom of the tables, did not change perceptibly in 1983 and 1984--but the differentials to the detriment of the lowest-paid were smaller.

Initial data on the consequences of the introduction, as of June 1984, of enterprise wage systems show that the wage growth at the enterprises covered by the new schemes was higher than the production growth and fall in employment would have justified. If the new wage systems are to be applied on a wider scale, a subtle policy is needed for countering excessive pay claims.

#### Price Policy

The price policy pursued in past years (1984 included) placed greater emphasis on the state's administrative interference in pricing mechanisms than on efforts aimed at improving these mechanisms. As a result, instead of flexibility in pricing policy and changes in consumer demand and foreign trade, we could see, as manifestations of a fight against inflation, the following developments: price freezing, administrative curbs on free movements of contractual prices, and [central] decisions on discrete price rises. These measures were often taken in the right direction--it is true--but they were also taken too late and in a manner which was destructive to the price pattern.

This was reflected in the raising of production-supply prices for coal and basic energy carries as late as January 1, 1985, in the change of rail and road passenger-transport fares, introduced as of November 12, 1984, etc. This was also true of the January 1, 1985 revision of the exchange rates, supposed to equate the domestic prices for basic raw materials, intermediates, and fuels with foreign-trade prices.

One effect of these belated and discrete changes in prices in 1984 was the temporary growth of product subsidies paid from the state budget. Instead of falling, these subsidies rose by nearly 30%, up to Z1 602.8 billion. The pattern of subsidies deteriorated, too. While the food subsidies dropped

in not only relative but also absolute terms (which is good), there was an increase in the share of subsidies to production-supply and capital-equipment prices, and in particular to the prices of heating coal and PKP [rail] and city-transport fares.

Such price policy instrument as the sales tax was not used in full. [Previously-planned] price increases for some luxury goods, such as tires, rugs and carpets, were abandoned last year, and in other cases--e.g. cars, refrigerators, and washing machines--the extent of increases was much reduced, which was tantamount to condoning high differentials between the [official] retail and black-market prices. The sales tax was increased for only a small group of articles, going up by around Zl 20 billion at an annual rate.

For several years now, the KRG has been proposing an introduction of ceilings for annual price movements, as an instrument offering a chance of flexible adjustment of prices to the changing conditions of supply, production, and demand. This idea was adopted as an alternative variant in the Council of Ministers' executive order 161 of Dec 4, 1984 concerning the ban on contractual-price increases.

The concept of commercial prices, effectively sorting out the indispensable and the excessive demand (e.g. for sugar) has yet to materialize.

As a result of price changes in 1984, the consumer price index for that year is estimated at 115, and for the first nine months at 108.7. The index for food prices in the same period reached 111.3, for alcoholic beverages 103.3, nonfood articles 107.3, and services 111.1.

The excess of free-market prices above retail prices of rationed foodstuffs ranged from 19% for pork to 97% for fatback, averaging 30-35%.

The excess of black-market prices above retail prices ran at 44% for automatic washing machines, 34% for refrigerators, 43% for TV sets, 32% for furniture sets, and 80% for Polski Fiat 126p cars. The gap narrowed as compared with the previous years, but it was still substantial, pointing to the need for further price adaptations.

#### Monetary/Consumer-Market Situation

The monetary and consumer-market trends were deteriorating systematically since 1978. The price growth, which had not exceeded 5% before that year, reached 20% in 1981. And this proved highly insufficient, in view of the discrepancy between the growth-rates of incomes and market supply. At the threshold of 1982, the inflationary overhang rose to Zl 250 billion, inventories fell to 40% of the indispensable level, rationing was rife, and the nonrationed market segments were in a state of chaos.

The reform of prices, raising their level by 100%, was supposed to balance the current purchase fund with the supply. But as a result of lower goods shipments to the market and an unbridled increase in incomes and social benefits, the goal was not achieved. Compulsory savings topped Zl 190 billion at the end of 1982, with their growth accounting for 6.8% of the value of goods and services supply.

In 1983, at the expense of a high increase in prices (by 25%), the extent of imbalance between the demand financed with current incomes and the supply was reduced substantially. The above mentioned indicator of compulsory-savings growth dropped to 2.5%.

The first ten months of 1984 witnessed further, perceptible improvement. The current-incomes demand was balanced by the supply of goods and services. The dynamics of expenditures was 2 pts above the dynamics of incomes. But in the last two months of the year, the pattern reversed.

As a result of a small decline in the growth-rate of production and a deeper fall in market deliveries (caused, perhaps, by the announced increase in production-supply prices), the index of expenditures (assuming the level of the same month in the previous year as 100), which stood at 125 in October, slid to 115 in November and 112 in December. At the same time, September and November saw some acceleration of the wage growth index--up to 120.4, against less than 118.0 in the previous months.

Despite some unfavorable trends in the last months of the year, 1984 was marked by some progress in balancing the market.

The ratio of the entirety of money-reserves [cash + savings deposits] growth to net incomes--which reflects the dynamics of compulsory savings--dropped to 5.9% from 7.9% in 1983. In 1981 the figure stood at 14% and a year later at 12%. The ratio of compulsory savings growth to the value of market supply dropped to 0.5-1%.

The inventories of goods increased by 29% (from Zl 508 billion to 644 billion), while their rotation indicator went up from 45 to 50 days. However, the shortage of inventories (especially of nonfood articles) is still very deep (in 1978 they were rotated in 190 days).

### Savings

The last year's growth of savings deposits reached Zl 184 billion, including Zl 140.4 billion in PKO accounts (where the dynamics was lower than in the previous year) and Zl 38.4 billion in cooperative-bank accounts (where the growth was accelerated). A large portion of this amount was accounted for the rural population's compulsory savings.

An analysis of the pattern of deposits reveals first signs of increasing propensity to save. The fastest growth is in time deposits, especially in the form of [savings revaluation] bonds. In the overall savings growth, the share of time deposits rose from 36.2% in 1983 to 39.9% in 1984, while

the proportion of call deposits dropped from 40% to 32.3%, respectively. There was also a slight decline in the share of special-purpose deposits--from 10% to 9.2%--which is connected with the gradual selling out of cars under pre-payment schemes. Starting from 1986, the role of special-purpose deposits is going to increase substantially, as a result of a big increase in obligatory deposits on housing accounts [of members of housing cooperatives waiting in a queue for apartments].

#### Estimates of Inflationary Gap and Overhang

An assessment of the size of the inflationary gap and the inflationary overhang is influenced by many factors, and especially by the adopted hypothesis about the rate of voluntary savings. Leaving other factors aside, it may be noted that there was a number of attempts at estimating the size of the inflationary gap and the inflationary overhang for various hypothetical levels of the voluntary-savings rate, as a proportion of the net incomes level.

The National Bank of Poland (PNB) applies the so-called residual method of computing the inflationary overhang, taking into account the impact of two opposing processes--the transformation of voluntary savings into compulsory savings, and the neutralization of the inflationary overhang. The NBP assumes in its estimates that the voluntary savings rate runs at 4.3% (or close to the level in the nearly-balanced period of the 1970s), and it estimates the inflationary overhang at Zl 620 billion at the end of 1984. A simpler, but also more debatable method consists in treating the overhang as a cumulative inflationary gap in successive periods--with the adoption of [one of] two variants of the estimated ratio of voluntary savings growth to net incomes:

\* Variant I - 4.9%, or the level assumed for the assessment of the state of disequilibrium in 1983 (the saving process is assumed to be same as in the previous year);

\* Variant II - 5.2%, or the level corresponding to the growth of money reserves as planned in the CAP 1984, i.e. Zl 250 billion (a small rise in the motivation to save is assumed, as a result of improved consumer-market situation and the narrowing of the gap between the interest rate and the rate of inflation).

Summing up this cursory presentation, let it be stated that a small progress has been attained along the difficult path to equilibrium. This is reflected first of all in the drop in compulsory savings, the growth of inventories, and the higher increase in time deposit.

The deterioration of the situation towards the end of 1984 was a development which repeated for the third time already--although it should be stressed that the incomes growth at the end of 1984 was lower than at the same time of the previous year. What is more worrying in the situation where equilibrium is still a long way off is the fall in expenditures in the last months of 1984 and the first two months in 1985, connected with the drop in market deliveries.

## Summary

A deepened and more detailed assessment of the 1984 performance would require some additional data and the time to process them--in order to clarify the differences of opinions on contentious issues. But even with the present knowledge of the problem, it is possible to attempt a synthetic assessment from several complementary standpoints.

One of them is the comparison of the actual developments with what was planned. Such approach has long traditions and will be no doubt featured in the report of the Planning Commission. While not dismissing it, we are fully aware of its shortcomings. The source of discrepancies between detailed targets of the plan and actual developments may be rooted either in forecasting errors (which are inevitable) or in an unfavorable course of real developments.

In 1984, and to a smaller degree in 1983, yet another, special factor was at work. In both years, the global index of production was higher than planned, while many individual targets remained unmet. Naturally, this gives rise to some skepticism about either the forecasting methods or the information upon which the forecasts were based.

The Planning Commission periodically shows concern for getting enterprise performance to comply with the forecasts--and of course it is the downward (not upward) deviations that attract attention. This concern, coupled with the [Planning Commission's] skepticism about the efficacy of automatic mechanisms of adaptation may, and in fact does lead to a multiplication of regulations, and even to a recourse to administrative methods. A major problem emerges at this point.

Under the traditional approach to planning, based on commands, the errors of forecasting are neglected, with plan targets constituting the pivotal element. But under the indicative planning methods applied in capitalist countries and under the Yugoslav methods, a discrepancy between plan and reality is a priori considered to be an error of the plan. It is the market and the enterprise that are treated as the key elements of the economic process.

Our system is oriented both to enterprise autonomy and market on the one hand, and to planning on the other.

The experience of the past two years indicates that the concept of co-existence of these two pillars of the system is neither clear enough nor sufficiently worked out in detail. It is desirable that it should be subjected to thorough consideration and discussion. Proper relationship between automatic mechanisms and planning has yet to take shape. "Planned" in the CAP, for example, are additional economic-policy tools in the form of supplementary regulation.

Another approach, taken in all analyses and assessments, is to watch the dynamics against a selected moment in the past. In the case of the Polish economy, one such point of departure that almost automatically springs to mind is the year 1982. In the two intervening years, the national income produced was increasing at an annual pace of 5%. Before the crisis, such a growth might have been considered less than fully satisfactory, but in the present conditions it is very--almost exceptionally--high. It is among the highest in socialist countries, while in comparison with Western Europe the 11% growth in two years is three times higher.

Naturally, it may be objected that the starting point was very low; but this kind of objections may lead to two contradicting opinions. On the one hand, it may be pointed out that the growth of the past two years represents only partial "offsetting" of the previous fall of national incomes (slightly more than half). But it may be also noted that the very big troubles which affected the 1982 level, and which still hamper the growth of the economy, provide a partial explanation of why it was not possible to achieve a still better growth-rate.

This is also connected with the fact that the structural deformations, left from the 1970s, have not been overcome yet. In many fields of Government activity, the goal of production growth is more important than a desire to improve efficiency. To this, we are inclined to attach a very big importance.

Naturally, 1982 is not the only possible point of reference. In some cases its application may even lead to exaggerated assessments. This is true, for example, of agriculture which in the past three years was growing at a very high pace (by this sector's standards). But its new-value production failed to recover to the level of the end of the 1960s, and the good weather was not without importance for the growth. These remarks should be treated primarily as a warning and an exhortation to show caution in future forecasts on farm output.

As far as the distributed income and private consumption are concerned, the year 1982 is not a good point of reference--if only because the public compares its expectations with the pre-crisis period (in some of its reports, the Planning Commission takes 1980 as the basis for comparisons). The problem of public expectations is highly complex. [Public] assessments are incoherent, although psychologically understood. Great emphasis is being placed on the depth of the crisis--even to a point of some exaggeration--as a result of which skepticism is shown about prospects for economic recovery on the one hand, and on the other a quick improvement is awaited.

But this is not the only factor behind the complexity of the problem. The overall index of consumption is misleading as a result of unbalanced market, shortages (or at least, absence of continued sales) in many market segments, and changes in the distribution of national income, which finally lead to the polarization of population incomes, not without the influence of the parallel circulation of incomes.

Naturally, despite all these reservations, it must be admitted that the period of "empty shops" is a thing of the past, that most of the goods delivered to the consumer market contribute to sectoral equilibria, etc. But on the other hand, the shortages of production supplies continue for the fourth year, becoming more painful than the indices for market deliveries might suggest.

Yet another aspect of the assessment of 1984 performance has to do with the future. How far is the major goal of this year's plan--i.e. progress in restoring the equilibrium--helped by the situation that developed at the turn of 1984? In our previous studies, we opined that the CAP-1985 targets, even if sometimes ambitious, are balanced [with the available resources]. The very severe winter has posed some dangers. Some of them are making themselves felt already now.

The bigger problems with balancing demand with supply are also influenced by the lower extent and slower pace of the price increase (as compared with initial plans).

This may require additional measures and some uneasy decisions. Despite the achieved progress, there are reasons to fear that the years 1983 and 1984 failed to provide an adequate basis for the implementation of the 1985 plan.

So much for the short-run situation. The long run is more important, but we are going to discuss this problem when commenting on the National Socio-Economic Plan [for 1986-1990]. Here, we are confining ourselves to a very cursory statement that the economic growth in the recent period was influenced by what we call its self-excitation on the one hand, and the reform and economic policy on the other.

In line with what we have often stated, we do not see a possibility of breaking down this multi-faceted phenomenon into prime factors. Both of the above-mentioned factors were at work with great force. But the self-excitation factor is unlikely to operate forever. It is already now that growth limits are being hit in one field or another--not only in mining but also in manufacturing industries where, in view of the insufficient replacement and modernization, growth is in danger in some segments.

The situation would have been different if deeper changes had been made in the structure of production--which, however, had proved impossible. It is true that the share of consumer-oriented production in total industrial output has increased but this is primarily an effect of current imports policy, rather than a manifestation of deeper, more durable structural changes.

This, naturally, does not mean that the process of growth self-excitation will die out altogether, although it may be suggested that a greater emphasis on the efficiency with which the resources are being used (rather than on production growth) might help improve the situation.

There can be only one practical conclusion for the future: the role of systemic changes, and the accuracy of these changes in laying down prospects for further progress, is bound to grow. This does not mean that changes in external determinant are unimportant, but here again, it may be noted that how these changes are used depends on precisely the systemic changes and economic policy, or in other words on the working out and effective implementation of a so-called "path of access" program.

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ROMANIA

EFFORTS TO INCREASE AUTOMOBILE EXPORTS

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[Article by Th. Purcarea: "Romanian Exporters Focus on Meeting World Market Demands"]

[Text] Manufacturing high quality products for export, capable of competing in international markets, is one of the primary concerns of the Romanian automotive industry, a branch that has yearly increased its percentage of exports within the overall production volume, reaching approximately 60 percent in 1984. For example, in 1983 the foreign trade enterprise Autodacia exported 88.4 percent more passenger cars and 34.5 percent more cross-country cars than in 1980. In order to penetrate into the fiercely competitive vehicle market and to preserve one's place in that market, one has to stay abreast of demand dynamics and of world production, and to flexibly and rapidly adapt to them.

In the past years, the automotive trade made up about 15 percent of all international commerce in manufactured products, not counting subassemblies and tires. The automotive industry holds an important place in the economy of many developed or developing countries, and huge resources are invested in the manufacture of the approximately 30 million vehicles that are produced annually in the world: 20 percent of the steel, 50 percent of the lead, 70 percent of the rubber, and 20 percent of the oil produced, and considerable manpower resources.

In reaction to the impact of a combination of factors such as: energy savings in the production and utilization of vehicles, the increase in interest rates ---also for purchase credits, particularly in the case of expensive models--- increased Japanese competition in western markets, especially for small-capacity cars, and so forth, all the major producers in the world have been endeavoring to restructure their production so as to lower costs while maintaining performance levels. Thus, research is focused on incorporating new technologies, such as the use of electronics, and on the utilization of non-ferrous materials (ceramics, fiberglass) a fact which brings about radical modifications in standards, in the sense that fuel savings and the weight of the vehicle are becoming the decisive criteria.

Restructuring strategies affect both the product itself, and the production process. As far as the product is concerned, the aim is to increase engine performance without increasing, or even reducing fuel consumption, so as to obtain a greater power while simultaneously increasing motion savings, by reducing size, mass, and air resistance.

New solutions are envisaged, beginning with more complete fuel combustion through increased compression, improvements in the ignition and transmission

systems, and up to bodywork modifications designed to improve aerodynamic characteristics and reduce weight, without detracting from interior comfort (The "Car Design Award" that is conferred for the best new mass-produced car design, this year was awarded to a Japanese model, the Honda Civic, precisely for the above achievements).

Regarding the materials used, the following goals are being pursued: replacing regular carbon steel by highly-alloyed steels (which reduce the weight of the car without diminishing load resistance; for example, some 70 kg are used for a Japanese car, and this figure will double in the coming decade; changes are also expected in the layer of steel applied); replacing steel by aluminum or various other alloys (thus reducing weight and increasing corrosion resistance); expanding the utilization of various types of plastic materials, which is affected not only by cost and fashions, but also by local standards; (it is thought that the future belongs to polypropylene, polyethylene, FRP-type plastics, and sandwich-type metal-plastic materials, despite their rather high cost); utilizing ceramics in the engine (which present the advantage of being inexpensive, light, durable, and resistant to corrosion and to high operation temperatures--this last characteristic permits improved engine performance; the American publication MACHINE DESIGN No 12/1983 reported, for example, that a new, economical material has been obtained in Australia, consisting of partially stabilized zirconium that has the same resistance as steel but does not crack at temperatures of up to 1,200°C, and that the material will be used for a new type of diesel engine); expanding the utilization of electronics by using special devices for engine and electrical system command, and for protection, comfort, and driving ease. Other recent efforts concern the utilization of microprocessors, designed to make cars "smarter" (noteworthy along this line is the work of the digital automotive electronics laboratory of the Bucharest Computer Institute), the conversion of gas engines to other fuels (alcohol or liquid gas), and electrical engines.

Expanding flexible production systems, consisting of automated machine-tools and conveyance lines, that can also feature a system of industrial robots, will considerably increase labor productivity and reduce the freezing of circulating capital, and will simultaneously improve the quality of the vehicles. Without ignoring the importance of other forms of automation and of electronic command systems, we want to stress that the number of robots used in the automotive industry has considerably increased in recent years, and it is predicted that this trend will continue, in view of the fact that the use of robots is one of the best means of reducing costs (for example, at the Hofu car plant--which produced the Mazda 626, the first Japanese car of 1982-83--most of the welding and painting operations are done by robots).

Innovation--One of the Permanent Goals of the Exporter

In order to meet foreign market demands, the Center for Scientific Research and Technical Engineering of the Pitesti Industrial Automobile Central is endeavoring, like the manufacturing plants, to continuously improve product performance.

In consequence of these efforts, this year, for example, the Pitesti car enterprise features on its manufacture program 22 Dacia models and versions, including the Dacia 1310 with five speeds. Recent novelties were clearly in

evidence at the fall edition of the Bucharest International Fair: the Dacia model with a 1,580 cubic centimeters [cc] cylinder capacity; the Dacia diesel model with five speeds; the Dacia break model with a 1,580 cc engine and 4-wheel drive; the Dacia 1,400 cc model with a compression ratio increased to 9 (and with the same fuel consumption) by the redesign of the combustion chamber.

Together with increased compression ratio, another means of reducing fuel consumption is the redesign of the camshaft, a solution that was successfully applied to the 62 HP engine of the Dacia pick-up truck and to the ARO-10 4-wheel drive sedan.

In response to the requirements of foreign partners who utilize Dacia cars especially in extensive flat areas, 5-speed transmission systems have been built that ensure continual engine operation at optimal speed, fuel savings, and improved performance. Another adaptation required by the conditions in which the partners use the cars are the larger-capacity fuel tanks mounted on Dacia models.

Special attention is paid to adapting the cars to the standards and regulations in effect in various export markets, concerning in particular environmental protection and road safety. Along this line we would like to cite bodywork structural improvements (resistance, design) and improved ignition systems. In the future, in cooperation with the specialized laboratory of the Computer Engineering Institute of Bucharest, we plan to improve the ignition system by building automotive equipment based on microprocessors. This research objective is part of a more extensive cooperation program whose direct economic objectives are to reduce fuel consumption and pollution factors, in keeping with foreign market requirements.

At the 1984 Bucharest International Fair, the Autodacia foreign trade enterprise also presented novelties in the range of ARO cross-country cars. The 1984 models--ARO-10 and ARO-24--featured new structural characteristics, and functional and design improvements. Since 1972 the ARO cars have proven their exceptional qualities, and won the first place at the Detroit and Safari rallies. Similarly, the Aro showed remarkable performances on rough terrain -- at the African rallies--being one of the 8 finalists out of 298 cars that participated in the Transafrica '80 rally. This year, ARO-24 cars with V-8 engines will participate in the 6th edition of the Paris-Algiers-Dakar rally.

Another means of improving the technical performance of the products of the Romanian automotive industry is international economic cooperation. The transfer of technology achieved within the joint production and marketing company Oltcit S.A.-Craiova, whose partners are the Pitesti Industrial Automobile Central and Autodacia on the Romanian side (with 64 percent shares), and the French firm Citroen (with 36 shares) has permitted our country to add to its export line new types of small-capacity cars such as Oltcit-Club and Oltcit-Special, which are appreciated in foreign markets for their modern line and technical performance. Oltcit-Axel, the new model manufactured by the company, elicited great interest at the 1984 Bucharest International Fair.

The Oltcit cars feature the internationally reputed and valued characteristics of the Citroen conception (high power and low fuel consumption; low motion

resistance; low specific weight per unit of power; engine revolution savings). It was those characteristics that won the description of "car of the future" for the Citroen Eco 2000 at the Paris international automobile salon.

### A Flexible Marketing Strategy

One of the major traits of the international automobile market--which is currently estimated at \$250 billion, which is the equivalent of the gross national product of a country such as Canada--is currently its multiple cooperation relations based on the extensive development of the subassembly industry. Major exporters of subassembly are the EEC members, the United States, Canada, and Japan.

Such cooperation is one of the components of the Romanian exporters' strategy. Thus, Autodacia cooperates with several foreign partners in organizing assembly lines for Dacia passenger cars and ARO cross-country vehicles. Thus, in keeping with the regulations in force in the partner's country and with the assembly technology adopted, the Cimpulung Muscel ARO Enterprise currently offers three delivery options for SKD/CKD, in various stages of assembly, some of which require minimal investment. The entire branch of the Romanian automotive industry can be viewed as an industry specializing in export. Its main enterprises export 50-60 percent of their production. Thus, the Pitesti automobile enterprise exports various Dacia models to over 80 countries in Europe, Asia, Africa, and North and South America. Among its major partners are Canada, the PRC, Denmark, Greece, Hungary, GDR, France, Italy, Czechoslovakia, and Poland. The ARO automobile enterprise also exports its powerful cross-country vehicles--nicknamed by foreign partners "the Carpathian Ox"--with gas or diesel engines and adapted for various purposes, to over 70 countries. Most of the Olcit-S.A. products are marketed abroad by the share-holders.

In 2 years time the Romanian automotive industry will be 30 years old (the first Romanian cross-country vehicles left the assembly line of the Cimpulung Muscel plant in 1957). These have been years of uninterrupted progress in technologies and products, of greatly diversified ranges in accordance with the requirements of the world markets (the first models of very low capacity cars will be manufactured in 1985 at the new automobile enterprise of Timisoara), and of the assertion of an intensive industry capable of promoting great economic development and of efficiently utilizing resources.

12782

CSO:2700/148

ROMANIA

BRIEFS

AVRAM, NICOLAE ECONOMIC TALKS--Moscow, 12 Apr (AGERPRES)--Romanian Deputy Prime Ministers Ioan Avram and Ion M. Nicolae talked with N. Baybakov, vice-chairman of the Council of Ministers, chairman of the State Planning Committee of the USSR, and with B. E. Shcherbina, vice-chairman of the Council of Ministers of the USSR, in Moscow. In the spirit of the understandings reached during the Romanian-Soviet summit interviews, the sides examined problems related to the development of the trade and economic cooperation between the two countries this year and over the ensuing five-year period. While visiting Moscow the Romanian deputy prime ministers also had interviews with the managements of the ministries of electric power development and electrification, gas, oil and petrochemistry, coal, construction of oil and gas industry enterprises, communications. [Text] [Bucharest AGERPRES in English 1806 GMT 12 Apr 85]

TRADE WITH BELGIUM-LUXEMBOURG--Bucharest, 26 Apr (AGERPRES)--The seventh session of the Joint Commission on Economic, Industrial and Technological Cooperation between Romania and the Belgian-Luxembourg Economic Union held in Bucharest analyzed the current stage of the Romanian-Belgian-Luxembourg economic relations and cooperation in domains of mutual interest. New possibilities were singled out and measures were agreed upon for the development and diversification of trade exchanges, of bilateral economic cooperation and in third markets. The co-chairmen of the commission signed a protocol of the session. [Text] [Bucharest AGERPRES in English 1500 GMT 26 Apr 85 AU]

PHILIPS COMPANY OFFICIAL--Bucharest 13 Apr (AGERPRES)--Premier Constantin Dascalescu received, on 13 April, Leonardus Th. Heesseles, vice-president of the Administration Board of the Philips Company--the Netherlands--now visiting Romania. Aspects regarding the further development of the relations of cooperation and collaboration between Romanian electronic and electrotechnological enterprises and the Philips Company were approached. [Text] [Bucharest AGERPRES in English 1658 GMT 13 Apr 85]

ECONOMIC PROTOCOL WITH CAR--Bucharest, 23 Mar (AGERPRES)--New ways and means conducive to the development of collaboration and cooperation in fields of mutual interest, more particularly in the capitalization of the forest stock and the wood working industry, in mining, geology, foodprocessing, food construction, as well as the joint building of units for the light and construction materials industries were covenanted during the proceedings of the seventh session of the

Romanian-Central African Joint Commission on Economic and Technical Cooperation, which concluded in Bucharest on 23 March. Moreover, measures were established to expand and diversify bilateral trade. At the end of the proceedings, Clement Michel-Pascal Nga Gnii-Voueto, minister of foreign affairs and international cooperation of the Central African Republic, and Mircea Georgescu, deputy minister of wood working and construction materials, signed the protocol of the session. [Text] [Bucharest AGERPRES in English 1434 GMT 23 Mar 85 AU]

NEW OIL WELLS--Bucharest, 27 Apr (AGERPRES)--In the first 4 months of the year more than 200 wells were drilled and started producing, currently yielding roughly 1,200 tons of crude. Romanian oilfielders make intensive efforts to turn out larger crude productions. They aim at both increasing the number of great-depth wells and applying modern technologies on a broad scale. In April, their efforts materialized in the growth of the daily average crude production by 2,500 tons or so as compared to the first month of the year. According to a programme in force, Romania will extract 12,600,000 tons of crude in 1985. [Text] [Bucharest AGERPRES in English 1313 GMT 27 Apr 85 AU]

INCREASING FERTILIZER PRODUCTION--Bucharest, 27 Apr (AGERPRES)--In the first four years of the on-going five-year plan, (1981-1985), the Romanian chemical industry registered a 29-percent production growth, which gave it the lead in point of development pace among the branches of the national economy. Fertilizers production posted still higher average rates of growth: In 1984 the 11 relevant combines turned out nearly 3.1 million tons of fertilizers (100 percent analysis), that is, 30 percent more than in 1980. This is an outcome of the development of the technical and material [word indistinct] of this sub-branch which, over the above interval, was added new productive units built at the Bacau, Arad, Slobozia and other combines, and assimilated 85 high-yield and highly efficient products and technologies. At present, well over two-fifths of the sub-branch's output is made up of new products. This year, Romania's fertilizers output will mark a 27.5-percent growth over 1984, outdistancing the development pace of the whole branch (the marketable production of the chemical industry will grow by 16 per cent this year). [Excerpts] [Bucharest AGERPRES in English 1745 GMT 27 Apr 85 AU]

OFFSHORE DRILLING RIG--Bucharest, 22 Mar (AGERPRES)--Fortuna is the name of the latest offshore drilling rig that Romania is about to mount off its coast, in the Black Sea continental shelf. Like its predecessors--Gloria, Orizont and Prometeu that have been operating for several years--it was fully made in this country. The new platform--now in the port of Constanta where the finishing touches are being put to it--was designed and built by the Galati shipyard that has already an experience in this field since it was there that the three previous ones were also made. The rig is as high as a 35-40-floor building and weighs about 10,000 tons. More than 100 enterprises and institutes around the country contributed the equipment: the engines were made at Resita, the drilling rigs at Ploiesti, the electrical outfit at the Bucharest Power Engineering Research and Design Institute; more plants and equipment were supplied by works at Craiova, Oradea, Cluj-Napoca, Timisoara, Medgidia, Roman, etc. Romania's first offshore drilling platform was completed in midseventies, and in 1979 oil was found in the Black Sea. [Excerpts] [Bucharest AGERPRES in English 1341 GMT 22 Mar 85 AU]

24 May 1985

COOPERATION PROTOCOL WITH USSR--The 13th meeting of the standing working group for economic and scientific-technical cooperation between the Ministry of Light Industry of Romania and the Ministry of Light Industry of the Soviet Union took place in Bucharest from 25-28 March. A protocol was signed on economic and scientific-technical cooperation between the two countries in the light industry area for 1985 and beyond, into the 1986-90 period. The protocol contains measures to deepen and diversify bilateral cooperation in production, trade, and the scientific-technical field. [Text] [Bucharest SCINTEIA in Romanian 30 Mar 85 p 7 AU]

SOVIET ENTERPRISE COOPERATION AGREEMENT--Bucharest, 20 Apr (AGERPRES)--A definitional agreement on cooperation was signed in Bucharest between the Romanian Foreign Trade Enterprises "Rompetro" and "Arcom" and the All-Union Foreign Trade Central "Soiuzvnes-exportimport" of the Soviet Union. [Text] [Bucharest AGERPRES in English 1256 GMT 20 Apr 85 AU]

CSO: 2020/119

24 May 1985

YUGOSLAVIA

CHANGES IN LAW ON REHABILITATING, CLOSING ENTERPRISES

Belgrade SLUZBENI LIST SFRJ in Serbo-Croatian No 7, 15 Feb 85 pp 338-340

[Text] On the basis of article 315 paragraph 3 of the Constitution of the Socialist Federal Republic of Yugoslavia, the Presidency of the Socialist Federal Republic of Yugoslavia hereby proclaims the law on changes and additions to the Law on the Rehabilitation and Closure of Organizations of Associated Labor which was issued by the SFRY Assembly at a meeting of the Federal Council on 14 February 1985.

Belgrade, 14 February 1985

President of the SFRY Presidency Veselin Djuranovic

President of the SFRY Assembly Dusan Alimpic

Law on Changes and Additions to the Law on the Rehabilitation and Closure of Organizations of Associated Labor

Article 1.

In the Law on the Rehabilitation and Closure of Organizations of Associated Labor (SLUZBENI LIST SFRJ No. 41/80, 25/81, 66/81, 28/33, and 20/84), in article 22, at the end of the paragraph, the period is replaced by a comma and the following words are added: "and at most up to the amount of the average monthly net personal income paid per worker in this organization during the past business accounting period."

A new paragraph 2 is added, which reads:

"As an exception to the provision in paragraph 1 of this article, the basic organization can pay advances on personal incomes up to the amount:

1) established by a self-managing general act, if the business loss is less than the reserve fund of the basic organization on the last day of the business accounting period for which a loss was established in the periodic account;

2) established by a self-managing agreement, if this self-managing agreement has established a mutual obligation to cover losses, provided that the basic organizations that assumed this obligation do not operate at a loss, and that they have transferred monetary funds, at least in the amount of the loss disclosed, to the transfer account or internal account of the basic organization whose loss they are covering."

Article 2.

Article 49 is changed to read as follows:

"The basic organization that has shown an uncovered business loss in the final account, from the day of the expiration of the deadline set for the submission of the final account until the day that it covers its losses, or until it compensates for the funds in the amount of the uncovered loss with a rehabilitation credit and it begins to operate without a loss, will pay advances on net personal incomes in the amount of the personal incomes guaranteed by law.

"If the basic organization, in the final account for the past year, showed an uncovered business loss, but is operating without a loss during the current year, until it covers or compensates for the loss it can pay advances on net personal income up to the amount of the average monthly net personal income paid per worker during the past year in this organization.

"If a self-managing agreement on mutual relations in rehabilitation or a decision by the rehabilitator so stipulates, the average monthly net personal income in paragraph 2 of this article can be increased by up to 50 percent of the growth in advances paid for net personal incomes per worker in the area of the economy on the territory of the republic or autonomous province during the current year in comparison with the same period in the past year.

"Basic organizations which in accordance with the Decision on Unified Classification of Industry (SLUZBENI LIST SFRJ no 34/76, 62/77, 77/80, 77/82, and 71/83) are classified in area 13, health care and social security, are exempted from the provisions of paragraphs 1 and 3 of this article."

Article 3.

After article 49 add articles 49a to 49d, which read as follows:

Article 49a.

"A basic organization that has shown a loss in the final account for the past year, in order to apply article 49 of this law, can decide to have a periodic account drawn up after the end of each month.

"The basic organization is to send the periodic account in paragraph 1 of this article to the appropriate social accounting service.

Article 49b.

"The percentage of the increase in advances paid on net personal incomes per worker in the economy of the republic or autonomous province is established by the Social Accounting Service on the basis of data from the latest periodic accounts or final accounts that the basic organizations have sent to the Social Accounting Service within a period of 30 days from the day of the end of the period set for drawing up the periodic account or final account.

"The percentage of the increase in paragraph 1 of this article is published by the Social Accounting Service.

Article 49c.

"The basic organization is responsible for sending the Social Accounting Service, in addition to an order for the payment of advances on personal incomes, information on the amount established up to which it can possess social funds for the payment of the advance on net personal incomes in accordance with the provisions of articles 22 and 49 of this law.

Article 49d.

"The official heading the federal administrative organ responsible for financial affairs will prescribe, on the day after this law goes into effect, the method for establishing the amount of funds for the payment of advances on net personal incomes in accordance with the provisions of articles 22 and 49 of this law."

Article 4.

In article 216, in the opening sentence, the words "agricultural cooperative" are replaced by the words "agricultural cooperative which does not contain basic cooperative organizations."

Article 5.

After article 216 an article 216a is added, which reads as follows:

"A monetary fine of 50,000 to 100,000 dinars will be the penalty for an economic crime by a basic organization, work organization, contract organization of associated labor, an agricultural cooperative that does not contain a basic cooperative organization, a basic cooperative organization a basic organization of subcontractors, or a handicrafts or other cooperative:

- 1) if it pays advances on personal incomes in an amount greater than the amount established in accordance with the provisions of article 22 of this law, and has shown a loss in the last periodic account (article 22);
- 2) if it pays advances on personal incomes in an amount greater than the amount established in accordance with the provisions of article 49 of this law, and has shown an uncovered loss in the final account for the past year (article 49).

"The person responsible for an economic crime will also be penalized with a monetary fine of 5,000 to 50,000 dinars, for the action in paragraph 1 of this article.

Article 6.

In article 217, in the opening sentence, the words "agricultural cooperative" are replaced by the words "agricultural cooperative which does not contain a basic cooperative organization."

Article 7.

After article 221, add an article 221a, to read as follows:

Article 221a.

"A basic organization which in the final account for 1984 showed an uncovered business loss, from the day of the expiration of the deadline set for the submission of the final account for that year, until the day that it covers the loss or until it compensates for the funds in the amount of the uncovered loss with a rehabilitation credit and it begins to operate without a loss, can in 1985 pay advances on net personal incomes up to the amount of the average monthly net personal income per worker in 1984 in that organization."

Article 8.

This law goes into effect on the eighth day after the day of its publication in SLUZBENI LIST SFRJ.

9909

CSO: 2800/263

YUGOSLAVIA

PROPOSED CHANGES TO IMPROVE BANKING, CREDIT SYSTEM

Belgrade EKONOMSKA POLITIKA in Serbo-Croatian 24 Feb 85 p 12

/Article by V. Grlickov: "Hard to Economize"/

/Text/ The latest version of the changes to the Law on the Banking and Credit System has not brought any substantial innovations. The bankers say that to some extent this is understandable, since one cannot expect the banking system alone to solve the problems, such as for example the operation of the foreign exchange market, which falls within the realm of broader economic-political relations. There are views, however, that demonstrate the interdependence of the foreign exchange and dinar spheres of business, using precisely the example of the foreign exchange market, with changes in both the banking and credit-monetary systems thus becoming essential. This is a question of the necessity of the banks' doing business on a different basis, while respecting the basic principles of the liquidity and solvency of the investment of money, with less dependence on the National Bank and its intervention through the primary issue of money. Without such changes in the system, using the issue to cover various things with dinars actually makes the demand for foreign exchange considerably exceed the limited supply; even if this does not directly prevent the foreign exchange market from functioning, it justifiably raises the question of what possible exchange rate could coordinate the supply and demand.

Scope of the Limitation

Virtually the only innovation in the proposed changes to the banking and credit system proposes the introduction of a criterion limiting the establishment of basic banks. It institutes a minimum of deposits and funds, below which a bank cannot exist. It is considered that the application of the limitation would eliminate or merge over 70 of the smaller basic banks in Yugoslavia. The enlargement of the banking system in this way would contribute to a greater concentration of money, in which the advantages of the large banks would be evident, not just with respect to investments in major projects, but also in view of the more varied structure of funds for ensuring liquidity and bearing risks. Bankers, at least the majority of them, do not have anything against such a limitation, since as they say, this is for the time being the only way to make at least the initial changes necessary in the system. At the same time, however, the question of the scope of this measure is being raised, and not just because its application would only partially solve the problem of the territorial isolation

of the so-called smaller opstina banks, which do not have more than a 10 per- cent share in the total potential of Yugoslav banking. The problem is above all that the limitation is a linear and "more mechanical measure," which in "selecting" the banks does not take into account the basic criteria of the liquidity and solvency of operation.

### Risk

It appears that during the discussions of changes in the banking and credit system, the most controversial issue was the risk of the banks for nonsolvent investments. In this regard, there was a demand that the founders (members) of the banks would be responsible, unlimited by their money, for the liquidity of the bank, with a clear explanation that it is only in this way that they can be economically motivated as managers to make proper credit decisions. This actually has to do with their decisions' ensuring the repayment of the credit and participation in the distribution of the bank's profit earned on the basis of the difference between active and passive interest rates.

In connection with the problem of risk, the bankers are also proposing that it become mandatory for an OUR /organization of associated labor/ to belong to only one bank. With such membership, the OUR would assume an obligation to place not only its sight deposits with one bank, but also other types of money for special purposes (reserves, for example), which are now set aside in a special account at the SDK /Social Accounting Service/. Also, the good side of "single-valency" membership is demonstrated by the example of the bad effects that occur through the present practice of OURs' committing themselves to more than one bank. Specifically, the possibility of being a member of several banks has resulted, it is claimed, in undesirable manipulations when an OUR incurs a debt through a credit and carries out its investment plans at one bank, keeping its deposits at others. In this regard, it is primarily a question of anomalies in foreign exchange business that will not be solved just by mandatory membership in one bank, because in the case of belonging to only one bank, the funds in foreign exchange accounts can still remain outside the function of supporting greater economic activity. For this reason, it appears that in order to solve this problem, changes outside the realm of the banking system must first be made in the foreign exchange system.

### Dinar Consequences

With respect to dinar business, however, mandatory membership with all the deposits of an OUR would create a danger of a general withdrawal of deposits into one bank, which translated into our language means "to one's own territory," thus eliminating even the possibilities that exist in the system for the movement of money in the unified Yugoslav economic area. In this case, there would be a limitation on the right of OURs to select the bank that will meet their various needs. Possibly this would also be the time to abolish the "right" to a credit on the basis of a deposit, and for the investment of money to begin to assume the function of the "production of value." Without this, the banks cannot become resistant to pressure from the sociopolitical communities to approve credits regardless of their own economic interests and beyond the limits of their liquidity.

The proposed changes to the banking and credit system have not made it possible for the associated banks to perform the "classic" credit and deposit functions, although these institutions were intended as "forms" for the broadest pooling of money. Thus, it is shown that even within the framework of this basically territorial principle of the organization of banks (the associated banks are primarily formed at the level of the republics and provinces), there is no basis for autonomous operation on the basis of the principle of economizing.

In other words, the associated bank, at least in the realm of dinar business, still has exclusively the role of a place for the basic banks (which represent the interests of their narrower regions) to reach agreements about how much money should be invested and where. Actually, the changes in the law do not change the situation in the slightest, and, as one banker said, "We in the associated banks, without deposits and funds and the possibility of directly approving credits, can still live comfortably, since there are no elements for bearing risk or for responsibility for mistakes in investment policy."

In any case, the changes to the law on the banking and credit system make no mention at all of broader forms for the concentration of money at the national level. For this very reason, just as in the otherwise good Long-Term Economic Stabilization Program, they do not open up possibilities for the introduction of the necessary market mechanisms and incentives for the investment of money, as was recently stated by Zivojin Rakocevic at a meeting of bankers. In other words, there will be a continuation of the practice of seeking solutions in state interventions through the primary issue, as a substitute for the insufficient circulation of money, and of neutralizing its unfavorable effects by measures for the withdrawal of surpluses of liquid money through higher mandatory reserve rates ("thus the mandatory reserve loses its main property as a monetary instrument").

9909

CSO: 2800/250

YUGOSLAVIA

FACTORY DIRECTOR SIFTER DISCUSSES DEFECTS IN SELF-MANAGEMENT

Belgrade EKONOMSKA POLITIKA in Serbo-Croatian 25 Feb 85 pp 17-19

[Interview with Ivan Sifter, director of the Zagreb Pencil Factory, by Mijat Lakicevic: "Who Is Usurping Self-Management"]

[Text] The discussion forum on the subject of "management organs in the implementation of the Long-Term Economic Stabilization Program," which was held in the middle of this month at the Belgrade Economic Chamber, inevitably turned into a discussion of the position, function, and role of the director in our economic system, and in society in general. In connection with this, our colleague Mijat Lakicevic spoke with Ivan Sifter, director of the Zagreb Pencil Factory, who was a guest at the discussion forum.

[Question] You have already headed a successful work organization for a long time. Tell us, however, exactly how many years you have been a director and how you have retained that position.

[Answer] I became the director of the TOZ [Zagreb Pencil Factory] in 1951. I went there from the federal administration, and before that I had worked in a match factory in Osijek. As for how I stayed on, staying on in our country is really a true art, and not just "merely" directorship. I have always, however, managed to find a common language with the workers, and I have always had a team of specialists with whom I worked well, and I must say that I have never had conflictive relationships. For a great many years now I have defended several principles in life: the first is truthfulness, second fairness, third, publicity, and fourth, information. A socialist world, and especially a self-management one, cannot do without this. If you do not give people true information, then you have discussions in the corridor. In order to be able to give truthful information, you have to be fair. An unfair person cannot be public. These principles have yielded certain results, and if we had principles of information in this country that were based on this, many matters would be resolved.

[Question] Let us go on to slightly "more general" ground. How do you view the present position and situation of the director in society?

[Answer] The director has been overthrown and he does not exist. In practice, it is a miserable post that is manipulated. In one of my books, I wrote that in our country mediocre, narrow-minded, and obedient directors are sought. You see, now it is being proposed that some of the directors' authority be increased. I think that this would be extremely dangerous at this time. We are in a situation of anarchy today, and if we now gave authority to the director there would be an explosion. First, the social climate is not on the side of the director...

[Question] Isn't that a way to change the climate?

[Answer] No, first of all the climate has to change. And second, today 50 percent and even more of the directors have not matured enough for their jobs and these directors would use their positions to gain revenge on those who have criticized them in some way.

[Question] What do you mean by the social climate?

[Answer] That is the most vital thing. The truth about this system has to be said. We can no longer speak and write laws for others, but for ourselves. We have to say clearly that the one responsible for economic and self-management activity is the director. Who has been appointed to develop self-management? The director, no one else. How does he do this? Through practical work, through decisions, through the daily life of the people he manages. If he does not have authority, then this does not work. When the federal administration was reorganized at the beginning of the 1950's, when the directorates were abolished, I asked Kidric who would be responsible for professional relationships and development in the enterprises. He said it would be the director. Clearly, the director has to have a professional team with which he works, without the team there is nothing, no one can work by himself. But instead of our putting that director in the right place, giving him professional assistance, establishing some sort of horizontal and vertical coordination function, we began to persecute him, because the trade union believed that self-management was an attitude toward the director, and giving the authority possessed by the director to the working class. During the ZUR [Law on Associated Labor] organization, in 1971, one member of the LCY Central Committee said that it was good that there were conflicts, that this meant that the working class was revolutionary and that it was fighting for authority, only I do not know against whom. When the 1974 Constitution took away the director's delegate rights, he was completely overthrown.

One of our major problems is that we still do not have a system that is scientifically founded and formed. We have not defined self-management. Today self-management is functioning as a trade union platform for guiding the workers toward their work. For me, self-management is an attitude toward the state -- the more state the less self-management, and vice versa. Under these conditions, I might perhaps say a little pretentiously, a director is the catalyst for relations between the state and the working class. And you see, if we were sensible enough to devote attention to the director, all of the contradictions that are occurring today between the state and self-management would certainly be resolved.

[Question] If we assume that this is not open to question, the following question arises -- who is it that says, "This is the right man for director"?

[Answer] That is well known. A director has to be extremely professional -- he has to have a very good knowledge of the economic system and the political system; today there are 700 laws that are binding on the director in some way. But a director cannot be created through education. Today a director also has to have his own virtues. There is no point in my listing them all now, but in one of my articles I listed about 30, primarily exemplariness, respect, love of work, etc. He also has to be a manager who can fit into the world market. The Americans, the Western world, have a system for the continuing rise of directors, and in our country they are persecuted. Today we are not conducting a cadre policy for the selection of directors at all. We should have reserve cadres; we must know who will replace the director tomorrow at some factory when the present one leaves. In practice this cannot take place, since according to some standards this is prejudgement, because everyone has access to the office of director. That may apply to some positions for officials and workers, but not for directors. Being a director is not a function, but a profession, and a very complex one.

[Question] What is the connection between the position of the director and the position of the whole economy in our society?

[Answer] Our basic problem is that we do not have any system. We thought that market automatism and mechanisms and self-management automatism would solve what the subjective forces of society could not. In 1954 we decided to work toward a market economy. At the same time, however, we also left another orientation: that socialism is welfare, the socialization of losses, etc. And since then in practice we have had two systems, two orientations within the party: one that insists on the model of poor socialism, socialism as welfare, and the other, on a market economy. Both sides have been extreme, however, since it is stupid to identify a market economy in Yugoslavia with West Germany or America. Why? We have a low level of technology, and they do not sell us the latest but instead obsolete equipment. In the second place, we have an enormous overhead, and finally, as a consequence of these and other circumstances, we have inefficiency, a lack of organization, and low productivity. But we are opening the market in order to force the working class to behave productively. These have been illusions, instead of our creating a moderate market economy with noncustoms protection, like America has today with only 19 percent of products free and the rest all under the LB and RK systems.

[Question] But nevertheless, that kind of economy from the rest of the world would force you as directors, and the collectives, to behave more efficiently.

[Answer] Only the system has to be adapted here... The other tendency that has associated socialism with welfare has also encountered limitations -- it is dangerous for a peasant to be rich so he is given 10 hectares, while

earlier it was 25, the craftsman is dangerous, the private doctor, etc. While one side has destroyed the economy through imports at any price, the other has destroyed it by not providing freedom in work. We have neglected our natural productive and human potentials, which are really large. Just as we destroyed the directors, in 1974 we destroyed economic organization as well. The Yugoslav economy does not have economic organization. It is political organization. If, I don't know, 4 OOURs [basic organizations of associated labor] are registered with one worker, 6 OOURs with two, and 50 OOURs with three, that is not economic but instead political organization. The imperative of an economy is integration and the concentration of social capital. Accordingly, such organization has put us in a situation in which we have remained completely helpless.

Furthermore, in 1974 the socialism-welfare trend definitely won, with an agreement economy as the theoretical basis. It collapsed in three years, however, and our only way out was to form the Kraigher commission, which proposed stabilization, although that word is quite wrong -- this situation cannot be stabilized, and if it were, that would be terrible. Since there was neither a plan nor a market, however, and the agreement economy was not working, the government had to exercise its constitutional rights and make use of administrative measures. These measures led to the abolition of self-management. Thus, for many years we have had the destruction of directors under the slogan that they had usurped self-management, and that when the worker managed things everything would be all right. In 1974 we inaugurated direct self-management, and it was only then that we experienced a crisis. And it was never simpler to get rid of a director. First you do not give him a loan, and then you do not give him a price increase -- you will overthrow him. Another one comes, you give him a loan, give him the prices -- and the workers are more than satisfied. And there is no one to explain this manipulation to them.

Now we cannot reach an agreement on working for the implementation of the Stabilization Program, because there is one tendency that is pulling us toward an agreement economy, and another, toward a market. And that is a conflict in the Central Committee; until the people in the Central Committee agree on which system, while we have committed ourselves to a market one, we cannot go forward.

[Question] Although it is predominately in the Central Committee, this conflict is very broad and also exists in the mid-level personnel.

[Answer] There is obedience with respect to those higher up. If it is settled higher up, things will be different immediately.

[Question] Let us go back to your thesis that being a director is not a function but a profession, that a director has to be trained, one must know in advance who can be a director, with two-three people being trained and one winning. It seems that we do not have the conditions necessary for this.

[Answer] We have the conditions but we do not have the sense.

[Question] Sense and legal conditions.

[Answer] That is easy to create.

[Question] Let us take the recent example of the director of Jugoalata in Novi Sad. The workers unanimously supported him, but the sociopolitical community was against him, with a fairly dubious explanation that he had not worked enough on development. This situation in which a director supported by the workers is ousted says a great deal about our system. On the one hand, it is said that all of the reproduction process is in the hands of the worker, but on the other hand, one of the main links in that process -- selecting one's own leader -- is not put in his hands. If the workers picked the directors, then their mutual relationship would also be different, and here we come to your thesis, then they would no longer be opposed, and would all be self-managers together. Otherwise, and under today's conditions, they are opposed, since the director is always in some way a "delegate" of some outside authorities.

[Answer] As I have already told you, the most serious thing that we have done to the directors was the taking away of their delegate rights in 1974. Since then each director has been an agent of the state, which under article 103 of the federal constitution is responsible for protecting legality and obligations toward the social community. At the same time, since his delegate rights have been taken away, a director cannot be an agent of the workers in the very place where issues vital to them are decided. It is fear of the director and his influence, and through this, at the same time a fear of the working class, since if the working class has rights then the director also has them. They have been taken away from the directors, however.

In the second place, the federation has abolished the council of associated labor [VUR], which after all used to prescribe the conditions for business activity. These conditions, however, have not been shifted to the republics, where there are VURs [Councils of Associated Labor] -- and we cannot do without them, because [otherwise] we would disrupt the country; this has remained in the federation, and it was said that the Federal Council, which is 50 percent associated labor, would settle this. These issues, however, have been put under the jurisdiction of the Council of Republics and Provinces, which does not have a single person from associated labor. Thus the fate of the workers is determined, since the conditions are 80 percent of what influences business results, by those who do not share the fate of the working class, who make a living from fiscal policy and not from work.

Furthermore, we say that the worker should master social reproduction and income, but article 110 of the ZUR regulated for him the way in which this income must be divided. We are left with the net income, but it is not divided by the economy, but rather by the trade union, through social agreements. Decisions are made for us that we have to save "Fenijsa" and "Obrovce," without anyone asking us about this. Thus our rights have been completely lost, and if we want self-management and the economy, then we

have to restore them. Unless there are changes in the provisions of the constitution and the ZUR that took these rights away from the workers, we cannot go forward.

[Question] How can it be changed in this situation, with this balance of forces?

[Answer] I claim that we have the forces. It would be a tragedy for the revolution if this were not changed; our leadership has to reach an agreement on this, and personal interest and personal ambitions have to be surmounted here.

[Question] Under the conditions of social ownership, how can one regulate the responsibility of the director for the operation of the work organization, development, and investments?

[Answer] That is our big problem. The director is responsible, and if the worker steals two pencils he files criminal charges. We constantly have economic crimes on the agenda, but we do not have any political crimes, the construction of "Fenijsa," "Obrovce," and others. That is the problem, and not petty theft. The problem is not that we have gone into debt, other countries are in debt too, but the problem is that we spent these funds where we should not have, so that the money invested was never able to repay itself.

[Question] What should be changed in the system so that this will not happen any more?

[Answer] First socialism should be declared to be a society of rich people, and the peasants should be allowed to work without limitations, within the framework of the family. According to the latest UN book, Yugoslavia can feed 80 million people, but it is feeding 17. An American feeds 130 citizens, and a Yugoslav, 5. The peasants have 85 percent of the land, 92 percent of the equipment, and 91 percent of the livestock, but we still boycott them like nonpersons. The key to getting rid of the debts is our agriculture. The key to unemployment is small business. Yugoslavia has 4 percent of all employees in handicrafts, while Japan has 56 percent. According to the Economic Institute in Ljubljana, they feel that Yugoslavia, following their model, could employ 1.8 million people. We have 30,000, i.e. there could be another 1.5 million. And finally, Yugoslavia has 105 people with a college education per 1000 inhabitants, Germany has 43, and Great Britain has 54. This is a real army of professional young people who want to work.

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YUGOSLAVIA

## FACTORY POLLUTION: ENVIRONMENTAL LAWS NOT ENFORCED

Belgrade EKONOMSKA POLITIKA in Serbo-Croatian 25 Feb 85 pp 19-21

[Article by Vladimir Karakasevic: "The Scope of 'Dirty' Technology"]

[Text] If the legal regulations were strictly applied, more than half of the factories in Yugoslavia would have to stop operating because of excessive pollution of the environment. If new proposals to tighten these laws are accepted, soon most of the leaders of these OOURs [organizations of associated labor] would be in prison.

Actually, in Yugoslavia we have gone furthest in laws and regulations to protect the environment. This area is even regulated in Yugoslavia by about 300 laws and over a thousand different regulations. Their provisions, however, are almost not followed at all. The question is thus how realistic it was to adopt all these provisions and deadlines for the installation of purification devices -- which most of those to whom they apply cannot meet.

Certainly there has been a great deal of polemics over this -- whether anything could be done, and what -- just as it is true that the regulations and the demands for the purification of waste water, gases, and other materials are not exactly of recent origin, and that for the most part the assertions of the polluters that they have been caught by surprise by some completely new circumstances cannot hold up. According to the existing laws, for instance, all users of water in industry and elsewhere were supposed to install purification devices by the end of 1979 at the latest. But this was a deadline from a rough calculation that the regulations on protecting water from pollution could be put into effect during that medium-term period. Afterwards that desire was transferred to this medium-term period, and now, when the end of it is approaching, there is increased pressure to have more consistent application of the laws. The occasion for this, of course, was excessive pollution: oil in the Sava, mercury in the Castelan bay, the sources of drinking water in Rakovica and Kraljevo...

In a few days the plant of Jugovinil's "Chlorine" OOUR is to cease operating, in accordance with a decision from the inspectorate of the community of the

Dalmcija opstina, because as a result of its obsolete production technology, a great deal of mercury was released into the sea from its sewers. The provincial inspectorate has ordered the chemical chain of Elektroprivreda Kosova, Gasifikacija, and Susara to install effective devices for the purification of waste water before the end of March, or else the installations will be shut down. From these operations, Ibar and Sitnica have been seriously polluted by phenol, which has also gotten into the wells of the city water system in Kraljevo and Trstenik, and become a dangerous threat to the lives and health of about 100,000 residents. The opstina public prosecutor's office in Pristina has indicted three directors of Gasifikacija, who will be tried for the crime of water and air pollution, under article 133 of the Serbian Criminal Code. The ones who polluted the Sava with oil, who caused public protests not seen before in our country, and tumultuous activity on the part of the sociopolitical forums, were not disclosed to the public, as has after all been the case with most of the others polluting the rivers, sea, and lakes. That is because the few examples above, as well as the several dozen OOUR managers who have been fined, are still more of an anachronism than an indication of a new system that is to become a permanent practice for everyone.

Nevertheless, there are more and more complaints and more and more judicial proceedings being instituted against polluters by the public prosecutors' offices. There are also many temporary water use permits with terms that expire this year and ultimatums for the installation of purification devices.

#### Laws Without Support

The polluters are nevertheless right to some extent when they assert that they have been taken by surprise by new demands for environmental protection. In the first place, it was seen that since the laws were passed, neither the legislator, nor the inspectorates, nor the executive organs have shown almost any resolve in enforcing them. The greatest "contribution" to this inertia was made by the administrative and political bodies of the opstinas, which for years have suppressed any problems arising from environmental pollution from the sewers or smokestacks of "their" factories, farms, hotels, housing developments... It was also the opstina inspectorates, prosecutors offices, courts... The problems and the pollution thus went downstream and downwind. In the second place, due to scientific and professional institutions, for the most part it has been known what should be done to protect the environment, how, and in what order -- and this has also been more or less formulated in legal regulations. In this regard, however, no organizers and implementors of these programs have established. Everyone, and no one, is responsible for environmental protection in Yugoslavia. Third, and possibly most important, none of these demands for environmental protection have been accompanied by any incentives for those who take on the expensive business of purification. Purification devices still mainly have to be purchased abroad, and these expenditures are burdened with all of the customs duties, taxes, and other fees as if this had to do with a new investment, and they are treated almost as luxury goods -- not to mention the total absence of any financial assistance in installing and maintaining

the purification devices from the budgets of the sociopolitical communities [DPZ]. In the United States, for example, the government budget is financing about 15,000 water purification devices. Our slightly over 100 devices are financed and maintained mainly by industrial firms. It is only now that the water usage SIZs [self-managing interest communities] are offering firms a 30 to 50 percent, and sometimes even 70 percent participation in the design and installation of water purification devices.

There are also illogical elements with respect to disincentive factors. In past years, the very mild fines for pollution and the minimal contribution/compensation for releasing dirty water (1.5 to 2 dinars per cubic meter) have not constituted any serious financial problem for polluters, and this has been cheaper than buying the simplest purification device abroad. Now, apparently, we are going to the other extreme. According to the proposed changes in the law on water and the corresponding regulations, the fines and contributions for pollution are to exceed the costs of installing the devices and purifying the waste water. Through a slight oversight in the synchronization of the proceedings, it can happen that firms will not be able to install the devices precisely because of the large financial outlays for fines and contributions. A particular issue is what will happen to those (probably in the majority) who will not be able either to pay the high contributions or install purification devices, since the financial position of OURs today is evidently worse than it was five or ten years ago.

In the last few weeks, the problems of protecting water from pollution have been dealt with by the members of the Serbian Assembly's Commission on the Protection and Enhancement of the Natural and Human Environment, while preparing draft views and conclusions to be adopted at a meeting of all the councils of the Assembly. On that occasion it was noted that we cannot decide now that the laws will be consistently enforced from now on, and close down more than half of the factories. Instead, we have to establish a definite procedure to arrive at some logical deadline after which the laws will really be in effect.

#### Pollution Benefiting the SIZ

Among the conclusions being proposed, several measures have been proposed that would undoubtedly help protect the water. There is also an intention to urgently establish and adopt regulations on how and under what conditions firms can be exempted from customs duties, taxes, and contributions for investments intended to protect the environment, as well as to seek possibilities for more favorable credits and other incentives in this work. Furthermore, it is being proposed that the 1986-1990 social plan of the Serbian SR give priority significance to the protection of the natural and human environment, and especially to protecting water from pollution, like the priority given to food production, raw materials, and energy. But there is also a position that this year the water usage SIZs should establish the amount of compensation for water pollution at the level of the economic cost of purifying the waste water.

It could happen, however, that around all of this protection work a fairly sizable new management-administrative apparatus could arise. Since it has been noted that in the past there have not been any organizers or people responsible for protection from pollution, it is being proposed that special committees on water usage be formed (republic and federal ones), which would combine all water usage activities, general water systems, protection from pollution, water supplies, the use of water for energy, irrigation and drainage, underground water, and so forth. In accordance with our self-managing and democratic logic, it is likely that afterwards similar committees (or at least subcommittees) would be established for individual regions and opstinas. In particular, people are seeking to have the law on water obligate the regions and opstinas to form as soon as possible, and equip with equipment and personnel, their own water usage inspectorates, and commissions on environmental protection, and to form autonomous services of the water usage organs. Federal inspectorates would operate at the national level. According to the same logic, it would probably also be necessary to establish committees for the protection of the atmosphere, for the protection of the soil... In all of this, no use has been made of the opportunity for the water usage and public health self-managing interest communities to become involved more appropriately in seeking and finding common interests in the business of water protection as well. Thus, the SIZs will continue to be bill collectors and the collectors of their own incomes. And, as the relationships have been established, it will be in the direct financial interest of the SIZs to have the water polluted as much as possible, since there will be a sharp increase in the collection of contributions from polluters. It is likely that this is also one of the reasons why there is strong insistence everywhere on more measurement of water pollution and why all water users are being asked to install meters on their sewers.

In general, there is a great deal of activity in our country on increasing the services and facilities to measure and establish the situation regarding water pollution. It seems that the funds for protection are being used more for building and equipping measurement stations and laboratories than for financing and purification. The Serbian Hydrometeorological Institute is working on an exhaustive registration of all polluters in the republic, and this work is to last until around the end of 1986. "We have already spent 15 years measuring and establishing the situation, and we are not dealing with the real work of protection at all," one of the members of the above-mentioned commission stated regarding all of this. In any case, the Serbian Assembly has formed a special Survey Commission to investigate the pollution of the water in the Ibar and Sava rivers; last month and this month, it toured the individual regions in the basins of these rivers, and spoke with the representatives of the local organs of the sociopolitical communities, firms, communal services and inspectorates, judicial organs, and the sociopolitical organizations and the LC of the opstinas, about the pollution situation and the measures that should be undertaken.

It was already known earlier that Yugoslavia has about 1,000 major polluters, that over a billion cubic meters of waste water are released each year from

housing developments, and over 8 billion cubic meters from industrial and mining installations; and that in the housing developments a little more than 10 percent of the waste water is purified, and in industry and mining, a little less than 20 percent.

During our talk on water protection at the Jaroslav Cerni Water Usage Institute in Belgrade, two and a half years ago, the experts pointed out the fact that just rational behavior regarding waste and waste water could eliminate 50 percent of the pollution. This had to do with the fact that oil emulsions, many chemical substances, and other materials can be usefully utilized and further processed instead of being released into the water, that warm water from thermoelectric power plants can be used to heat residences and greenhouses, and that boiled slime that has passed through purification installations can be used very successfully to fertilize the soil.

Through such actions, all the investments in water protection could be repaid very quickly, and as is also important, this would also be an evident and tangible economic calculation for water users, since what Yugoslavia most lacks in this area (besides money) is a certain education and awareness of the importance of environmental protection. Specifically, we still have a prevailing belief that environmental protection is an invention of enthusiasts and nature lovers, and there is very little recognition of the large economic losses resulting from the pollution of water and other natural resources.

During this year, a subject will be sought for the next "Red Banner" meeting of self-managers in Kragujevac. Certainly that would be an opportunity and a suitable place for working people to become more broadly and objectively acquainted with the set of issues related to environmental protection, and their economic link with the work that self-managers perform in their workplaces.

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YUGOSLAVIA

FOREIGN TRADE IN AGROINDUSTRIAL PRODUCTS, 1984

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 6 Mar 85 p 10

/Article by Milorad Urosevic: "Full Basket--Prediction"/

/Text/ In a situation when there is less and less newsprint and its price is rising drastically, economizing on it would be welcome. This also requires certain deviations from the traditional forms of journalistic expression, which particularly applies to reports from various meetings, which are mostly selected and the space determined for them in accordance with "what is important is who is speaking and not what he says." The benefit from this would be twofold: we would save on paper and the articles or news would be more interesting, more understandable, and shorter. The occasion for this introduction is specifically food exports, which were discussed at the end of January by the Presidency of the Economic Chamber of Yugoslavia, as was discussed and written about by almost all the news media.

The representatives of business communities and funds in agriculture met, and as if they were living outside of this space and time, they concluded that at the end of this decade "Yugoslavia could achieve a 4 billion dinar surplus in food exports"!

For the most part these were the same people who predicted in 1980 that this year Yugoslavia would reach \$2.5 billion in food exports, but now they have not even mentioned that so-called prediction of theirs. To tell the truth, they said that last year's plan for exporting \$1.5 billion was not fulfilled, and so this figure was repeated as the goal for the current year as well, and simply nothing was said about the real situation, about the increasingly larger food imports and deficit. Imports of food in order to feed the population, according to the logic that has prevailed for decades among the producers of agricultural/food products in the social sector (since no one asks the peasants about this), is graciously left to the "state," which is at the same time attacked very harshly because, as it is claimed, it has not ensured the most favorable conditions for this production.

But what kind of results are being achieved in this complex, as demonstrated by the data of the Federal Institute for Statistics?

1) Izvoz i uvoz hrane u 1983. i 1984. godini						
(u milionima dinara)						
Grana-grupacija 2)	1983.			1984.		
	Izvoz 3)	Uvoz 4)	Razlika <sup>5)</sup> (+) (-)	Izvoz	Uvoz	Razlika (+) (-)
PREHRAMBENA						
6) INDUSTRIJA	67.211	57.867	+ 9.344	68.175	53.998	+ 14.177
7) Industrija pića	10.863	556	+ 10.307	9.154	1.197	+ 7.957
8) Ind. stočne hrane	376	850	- 474	427	741	- 314
9) RATARSTVO	35.623	46.924	- 11.301	30.710	54.056	- 23.346
10) Voćarstvo	5.028	19.512	- 14.484	4.184	16.615	- 12.431
11) Vinogradarstvo	455	-	+ 455	286	-	+ 286
12) STOČARSTVO	10.605	9.269	+ 1.336	12.385	14.457	- 2.072
13) Ribarstvo	991	3.124	- 2.133	1.126	2.141	- 1.015
14) UKUPNO u milionima USA dolara	131.152	138.102	- 6.950	126.447	143.205	- 16.758
	1.050,9	1.106,6	- 55,7	1.013,2	1.147,5	- 134,3
15) pokrivenost uvoza izvozom %		95,0			88,3	

Key:

1. Exports and Imports of Food in 1983 and 1984
2. branch/group
3. exports
4. imports
5. difference (+) (-)
6. food industry
7. beverage industry
8. livestock feed industry
9. farming
10. fruit growing
11. vineyards
12. livestock raising
13. fishing
14. total in millions of U.S. dollars
15. coverage of imports by exports, in percent

The data in the table are fairly clear, but nevertheless certain details should be stressed. The food industry should be the main factor not just in domestic processing and the high degree of final production of agricultural products, but also in exports. This cannot be concluded, however, if some other facts are taken into account, in spite of the fact that last year exports were greater than imports by one-fourth, and that there was a positive balance of 14.2 billion dinars, or \$113.6 million. The possibilities for food production in Yugoslavia are among the best in Europe, and business conditions, although this is not the only indicator, judging by the funds used per worker in 6 months of

last year in the food industry, are more than favorable. Of the 16 groups in this branch of the economy, only 2 had 1.3 million dinars per worker, 1 had 1.6 million, and 1 had 2.1 million. The rest were noticeably "richer": sugar producers had 8.6 million, edible oil producers had 6 million, "the rest of the food industry" had 5.4 million, the mills and fruit and vegetable processing had 4.2 million each, the slaughterhouses had 3 million, and the remaining six groups mostly had a little less than 3 million dinars in funds used per worker, with all of them thus among the capital-intensive industries.

At the same time, last year the producers of leather footwear and leather goods had exports 77.8 billion dinars higher than imports, with 1.2 million dinars in funds used per worker, the producers of finished textile products had exports 77.2 billion dinars higher than imports, and an average of 950,000 dinars in funds used, while furniture producers, with 1.5 million dinars in funds used per worker, achieved exports 53.3 billion dinars higher than imports. It is not particularly necessary to emphasize that these three branches of the economy, with exports that were a total of 203.3 billion dinars or \$1.63 million higher than imports, are very labor-intensive, aside from concluding that this ration of theirs for the food producers as well is impermissible.

Of the other branches of the economy and the industries in the table, recognition is deserved by beverage production, with exports 7.6 times higher than imports, and by the vineyards, some of whose grapes are exported in the fresh state, while everything else is subordinate to the food industry. According to economic logic, food exports should have been increased precisely through a high stage of final processing, in accordance with the hundreds of billions of dinars and likewise large debts abroad that were invested in this industry, and a positive balance should finally have been ensured in food exports. This was also written in the documents of the 10th LCY Congress: "to ensure meeting domestic food needs, dispense with imports; and increase economically rational exports," which has unfortunately remained just a "dead letter on paper."

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END