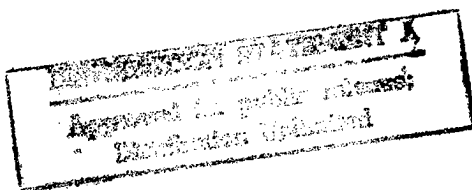


30 May 1984



## EAST EUROPE REPORT

### ECONOMIC AND INDUSTRIAL AFFAIRS

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COOPERATIVE ENVIRONMENTAL POLICIES IN WATER MANAGEMENT, BIOSPHERE

CEMA Institutes Environmental Monitoring

East Berlin BAUERN-ECHO in German 6 Apr 84 p 6

[Unsigned article: "Twenty-two Stations for the Control of our Environment"]

[Text] An effective service for the complex task of watching nature, called monitoring by experts internationally (from the English "to monitor" meaning "to watch") is now being set up within CEMA. Experts from the socialist nations have been collaborating successfully in this area for several years. Their efforts are being coordinated by the Laboratory for Monitoring of the Environment and Climate which is part of the State Committee for Hydrology, Meteorology and Environmental Control of the Soviet Union.

Under the terms of a supplementary protocol to the treaty on scientific-technical cooperation in CEMA of 1976, the first stage of this monitoring system, which is to comprise 22 land stations in CEMA countries, is now in progress. It will provide operational information about changes in the environment caused by human activity and will help in making regular estimates about the condition of the entire biosphere (air, water, earth).

The stations are subdivided into base and regional stations for the scientific observation programs. The base stations ensure that information is available about the beginning state of the biosphere and they are therefore located in areas in which man does not have an immediate impact on nature. CEMA experts are of the opinion that about 30 to 40 land stations and up to 10 ocean base stations will be enough for effective monitoring of the biosphere over the whole world.

When cooperation in this area began, there was no specialized method for determining concentrations and the character of the influences polluting the environment. In the meantime different methods and types of equipment have been tested jointly and compared. For example, in 1979 experiments were conducted by land stations in Hungary, and subsequently in the CSSR and Bulgaria, whose results led to a standardization of monitoring methods and of equipment. The CEMA nations that lie along the Black Sea and the Baltic are currently drawing up criteria for the selection of sites for the planned sea stations,

a program for the complex monitoring of the condition of the sea and methods for determining materials which pollute the environment.

For the first time in 1983 a joint bulletin appeared on the problems of environmental protection in the area of the East European member nations of CEMA, which is to be published annually in the future.

#### Microbes Cleanse Polluted Rivers

East Berlin TRIBUNE in German 17 Apr 84 p 6

[Article by Ralf-Juergen Boehme: "Microbe Cultures Cleanse the Pleisse, the Elster and the Saale"]

[Text] A powerful new waste treatment plant has been put into permanent operation in the Espenhain VEB lignite processing plant. Its purpose is to help in the long-term cleanup of the severely polluted Pleisse, Elster and Saale rivers. The treatment plant--a similar one has already been constructed in the "Otto Grotewohl" factory in Boehlen--is the same size as a small chemical factory.

All the equipment for the treatment plant was manufactured in factories in the GDR. The technical innovations include the 3,200 m<sup>3</sup> tank reactors with inclined water jets and mechanical foam destroyers and surface aerators made of polyester resin, which were developed by a collective at the Chamber of Technology in the Chemical Plant Construction Combine in Leipzig-Grimma. This factory also supplied the technology for the waste water purification. In Espenhain it is set up particularly for the breakdown of organic substances such as sebacic acids and phenols.

In the VEB lignite processing plant in Espenhain, the chemical processes used in precarbonizing result in high water consumption. In spite of circulation systems designed for multiple use of the water, several million cubic meters of waste water are produced each year. Until now, 65 percent of the contaminants in the Pleisse originated in Espenhain. Since the treatment plant has been put into operation, the factory possesses a purification capacity of 1,300 m<sup>3</sup> of waste water per hour. That makes a total annual volume of 11.4 million m<sup>3</sup>. With this capacity, the plant can also purify the waste water from the neighboring VEB plastics factory in Espenhain. This means, that after a holding time of about 10 hours in the treatment plant, water flows into the Pleisse from which more than 70 percent of its original organic contaminant load has been removed. Engineer Joachim Reinold, the head of the plant, said: "In the next few years the water pollution will be visibly reduced." He explained that this was an important condition for the Pleisse's ability to regain its self-cleansing capability as quickly as possible.

Bacteria, which remove chemical compounds from the water in the new treatment plant, perform the main work in reducing contamination in the water. The bio-sludge that is created by the microorganisms is deposited in settling tanks. Most of it is returned to the purification process, a small amount is destroy-

ed as surplus sludge during the aging of the coke in the low-temperature carbonizer. This process is the result of work by a Chamber of Technology collective from the VEB lignite processing plant in Espenhain. The coal dust separates out in pretreatment stage, before the microbiological purification of the waste water. The dust is compacted and reclaimed as waste tip fine coal. About 10,000 tons are obtained annually.

The economic benefit of the Espenhain environmental protection plant can also be seen in the fact that water users on the lower course of the Pleisse will have to pay less and less in future for the river water to be treated for drinking. A second stage of expansion is to be completed in Espenhain by 1986. Work is already proceeding at full speed. Plans call for the construction of an activation tank, in which more microbe cultures will attack the contaminants that are presently not vulnerable. By 1986 water quality in the Pleisse will change from "severely contaminated" to "moderately contaminated." After that, there are aspirations to win the award for "good water quality."

Like other environmental protection projects in heavily populated industrial areas, construction of the treatment plant in Espenhain is being supervised by the Council of Ministers of the GDR and the Department for Environmental Protection.

#### Water Management With USSR

East Berlin NEUES DEUTSCHLAND in German 17 Apr 84 p 6

[Text] A protocol on further scientific-technical cooperation between the GDR and the USSR on joint water supplies and waste water treatment, running until 1990, was signed on Monday in Moscow. The document was signed by Dr Hans Reichelt, deputy chairman of the Council of Ministers of the GDR and minister for environmental protection, and by Fillip W. Popov, minister for housing and communal economy of the RSFSR.

The cooperation centers around efforts to create efficient procedures and technologies for water purification and waste water treatment which meet the requirements of the housing construction program. Agreement was reached on the joint development of equipment and methods to mechanize labor-intensive production processes. Factories and institutes of both ministries will work together directly to achieve an increase in output and efficiency in existing plants for water purification and waste water treatment by means of greater intensification and rationalization. This expanded cooperation in research will serve to translate new scientific-technical results into practice more quickly and help to realize the objectives of water management with greater success and greater efficiency.

During his stay in the Soviet Union, Dr Reichelt also met with Sergey Bashilov, chairman of the State Committee for Construction on the Council of Ministers of the USSR.

9581

CSO; 2300/441

## ALBANIA

### PARTICIPATION IN INTERNATIONAL FAIRS DISCUSSED

Tirana ZERI I POPULLIT in Albanian 2 Mar 84 pp 1, 3

[Interview with Pajtim Ajazi, deputy minister of Foreign Trade: "Our Country in International Fairs"]

[Text] The various international fairs, in which the People's Socialist Republic of Albania has participated, are a reflection of the force and vitality of our people's economy. In this connection, our correspondent recently had a talk with Pajtim Ajazi, deputy minister of foreign trade:

--What are the fairs organized by our Chamber of Commerce in 1983?

--The Chamber of Commerce of the People's Socialist Republic of Albania organized the participation of our country in some international fairs in 1983. Concretely: [Albania was represented] in the international fairs in Milan, Algeria and Barcelona by pavillions of general goods; in Izmir, Salonika, Gothenburg and Basel by pavillions of specialized goods; and in Tokyo and Leipzig by trade offices.

--What attracted the attention of foreign visitors and tradesmen in these pavillions? Can you tell us something about the content of these pavillions?

--The things which attracted the attention of visitors and personalities of these countries in our pavillions in these international fairs, and which were stressed in the foreign press, were the great victories achieved by the People's Socialist Republic of Albania in all fields of the construction of socialist [in Albania,] under the leadership of the party led by Comrade Enver Hoxha. We believe that these fairs are properly executing the function of propagandizing and of making known the broad range of our goods and of their structure. In these fairs, live and fruitful discussions take place with foreign firms and tradesmen in the presence of our goods. In regard to the signing of contracts, again, we have improvements. Last year, we achieved better work regarding the signing of contracts, for example, in Milan, for medicinal plants, in Salonika, for artistic products and in Izmir, for liquid bitumen. Also [we did better work] in Basel, Gothenburg and so forth. Nevertheless, in this field, our trade workers must do more and be more attentive and more adroit. They must struggle to sign contracts not only with the traditional firms, but also with new firms and with new countries.

Of special interest were the products of the mining, extraction and processing industry represented by chrome and ferronickel ores, pyrites and their concentrates, ferrochromium ores, electric wires and cables and steel of various manufacturers, which are the products of the "Steel of the Party" combine; tractor spare parts of the "Enver Hoxha" auto-tractor combine; articles of great precision of the "Petro Papi" plant; and other metal articles which show that the cycle of processing in the country for a number of minerals has been concluded. In addition to the articles which now are customary for our export, we exhibited a number of new mineral articles, such as the quartzites, olivinites, dolomites, bauxites and other new minerals which have been added to the nomenclature of our export goods, showing that our subsoil is rich with useful minerals demanded by foreign markets. A greater number of articles, of good quality, from light industry and the food industry, the chemical industry and from artistic craftsmanship were also exhibited [in these pavillions]. The textiles of our combines and their ready-made clothes, the canned fruits and vegetables and the alcoholic and non-alcoholic drinks were also appreciated. Last year, we exhibited a broader range of articles of artistic craftsmanship which were appreciated for the way they were made, for their variation and for their usage, as well as ornamental and functional articles.

It was also affirmed that, fully relying on our forces, a strong and vigorous economy, a multibranch industry and a progressive agriculture have been created in Albania; they are capable not only of satisfying the increasing demands of our people, but also of increasing the range of our export goods in quantity, quality and assortments.

--We would like you to mention some of the impressions of foreign visitors.

--Yes. The comrades who participated in these fairs remember and have noted these impressions. One thing is true: the number of visitors to our pavillions was large; moreover, in some fairs, for example, in Izmir and elsewhere, as it was stressed in the local press, was a record. These visitors were moved by their desire to learn as much as possible about socialist Albania and about its correct and principled policy in all fields and by their respect and admiration for the Albanian people who, under the leadership of the Albanian Workers Party headed by Comrade Enver Hoxha, are constructing socialism, fully relying on their own forces, without stretching out their hand to anyone. They were people of various ages and professions from the cities where the fairs were organized and from other areas of the countries which participated in these fairs; they were friends and admirers of our country and people from other countries, who were interested in having economic and commercial publications and other propaganda materials. Many visitors expressed their love and respect, with warm words, for the party and Comrade Enver, for our people who are constructing socialism with their own forces. A teacher from Ejaunu, a village in Japan, said that he had collected 100 songs about Skenderbeg and that he was trying to teach his pupils the Albanian language. According to me, he said, Albania is the only country in the world that is constructing real socialism. Or, an older Italian citizen, who was called "Enrico," said that he had been in Albania some years ago and that what he saw in the pavillion shows that Albania has created a

modern industry, a modern agriculture and an economy which does not know crises and inaction. A 93-year old man from Izmir, after visiting our pavillion, said: "The Albanians have done well; they have made their country look like a bride."

Also, the press, radio and television of the countries, in whose fairs our country participated with pavillions of goods, reported on the successes achieved by the People's Socialist Republic of Albania in all fields of the construction of socialism and on the prospects opened up by the Seventh Five-Year Plan.

--In which international fairs will our country participate this year?

--In 1984, the Chamber of Commerce of the People's Socialist Republic of Albania will organize the participation of our country in a number of international fairs. For example, it will organize pavillions of general goods in Hannover, the Federal Republic of Germany; and in Izmir, Turkey; it will organize pavillions of specialized goods in Utrecht, the Netherlands; in Barcelona, Spain; in Salonika, Greece; in Gothenburg, Sweden; and in Bari, Italy; and will also organize trade offices in Osaka, Japan; in Naxara, Malta; in Cairo, Egypt; in Vienna, Austria; and in Leipzig, the German Democratic Republic.

On the basis of the experience gained and of the successes achieved last year, the Chamber of Commerce, in cooperation with production enterprises and foreign trade enterprises, has taken a number of measures to organize our pavillions in these fairs in the best possible way.

1950

CSO: 2100/39

## ALBANIA

### NEED FOR STRICT TECHNICAL DISCIPLINE IN CHEMICAL INDUSTRY

Tirana ZERI I POPULLIT in Albanian 30 Mar 84 p 1

[Editorial: "No Negligence in the Execution of Technical and Technological Discipline in the Chemical Industry"]

[Text] The correct policy of the party on the creation of a complex multi-branch industry has also found expression in the development of the chemical industry. Although among the newest branches [of the economy], thanks to the state investments, the chemical industry was rapidly expanded and modernized, responding to the requirements for the most complete and total utilization of the wealth and raw materials of the country, for the support of the development of all branches and sectors of the economy.

The implementation of the great tasks of this year and of the entire five-year plan in this branch requires that the work of the party organs and basic party organizations and, under their leadership, of the state and economic organs, ensure the full and highly effective utilization of the technical-material base and of the technical, scientific and human potential placed at its disposal. We stress this, because, along with the efforts carried out in general and the results achieved by the special collectives, both during the past year and the current year, there have been mistakes and shortcomings in the chemical industry which have led to nonfulfillments, thus, creating worries in the enterprises and other sectors in regard to the execution of the supply contracts.

We must admit that, compared to last year, there are improvements and better efforts in regard to the fulfillment of the tasks. As a result of this, we are producing superphosphate powder, oleum, enriched quartz, hydrochloric acid, sulphur for export, sodium hyposulfite and other products above the first quarter plan. The daily plans for sodium hydroxide, polyvinyl chloride, sulphuric acid and so forth were also fulfilled and overfulfilled in March. Nevertheless, improvements are not up to the level required.

In order to prevent failures to fulfill the plan, as shown in the analyses made by the party organizations and the work collectives of the enterprises, it is necessary to increase the feeling of responsibility of the communists, cadres, specialists and workers for the plan and the plan discipline. At the Eighth Plenum of the Party Central Committee it was emphasized that the

attention must be more concentrated on the chemical industry, not only because the chemical industry is not a simple branch and because it has created noticeable shortcomings, but also because agriculture depends on it and because it supplies a number of enterprises with raw materials. The correct understanding and execution of this recommendation and of the position of the chemical industry in broad cooperation with the economy must lead to the growth and strengthening of the proletarian and technical-scientific discipline in work and production.

This discipline, based on the increasing of awareness, of the socialist attitude toward work and of the strengthening of control by the managements of the enterprises, must lead to the further improvement of the readiness of machines, lines and plants. In the chemical industry, because of the nature of uninterrupted technological processes with precise parameters and high level of corrosion, good organization and technical readiness are of particular importance. Because, in this field, there have been deficiencies at the soda-polyvinyl chloride plant, the chemical-metallurgical combine in Lac and so forth and that there have been breakdowns, accompanied by losses in production in some, not insignificant, cases. On the basis of this, in spite of the greater improvements and efforts which are being carried out this year, the task of the plant managements and of their cadres and specialists and of the Directorate of Chemistry in the Ministry of Industry and Mines is still to place, the repair and maintenance of lines on more organized bases and to adopt measures on time in regard to respect for schedules and the improvement of their quality. The basic party organizations in these plants, while dealing with the most important links and with less important ones, must never tolerate the violation of these schedules and the liberal concessions and attitudes--which are observed in the work of the directors and the engineering-technical personnel of the plants--which affect the life and readiness of production machines and lines and, first of all, the workers and their health. Those cases, when machines and pieces of equipment in various sectors of the soda-polyvinyl chloride plant and of the sulphuric acid combine in Lac were out of use, were precisely the consequences of these attitudes. Such cases, which are not rare, must always and everywhere constitute the object of a thorough analysis, not a general and superficial analysis, so that the concepts and attitudes of the responsible people will be discovered and that responsibility and measures be determined, thus preventing the situation from remaining in the sphere of the stating and pardoning of mistakes, as has happened not unfrequently.

A strict technical-technological discipline cannot be achieved without the implementation of rules and instructions on utilization and without properly following up and monitoring the technical and technological parameters of the processes. For this, along with the conscientious work and attitude of every worker, it is essential for the engineering-technical personnel and workers, to master technological processes better and to know more in detail the construction aspect of apparatuses and their functioning. Greater efforts must be made in this direction by technicians, combating the erroneous opinion that "the issues of maintenance are matters that concern only mechanics." This is the only way to improve the quality of prophylactic services and of repairs. This is how they will manage to prevent defects or to avert them rapidly and without losses.

The chemical industry has broad coordination with all sectors of the economy. This coordination is expressed not only in the obligation by the chemical industry to supply these sectors, but also in the obligations which other sectors have to assure the normal work in the chemical plants. A better and continuing coordination of the ministerial directorates, especially, of the machine directorate, must emerge from this twisting of tasks in order to assure in quantity and quality the necessary machines, pieces of equipment and spare parts which are linked with the supply of fuel, where there has been concern and so forth. Of course, the directorate of chemistry of the Ministry of Industry and Mines must play its role here in a better manner than until now, anticipating and solving in time the problems faced by the enterprises which it covers and strengthening its control over them. The other directorates of the Ministry of Industry and Mines or of the other ministerial departments which are linked with them, must find their responsibility and draw their tasks from the obstacles created, especially, in the supply of raw and auxiliary materials and in the failure to respect their quality--a fact which is accompanied by consequences and influences harmful for the technical process and so forth.

9150

CSO: 2100/39

## COUNCIL OF MINISTERS REVIEWS ECONOMIC ACTIVITIES

Sofia RABOTNICHESKO DELO in Bulgarian 11 Apr 84 p 8

[Text] (Bulgarian Telegraph Agency) The fulfillment of the unified plan for the social and economic development of the country for the first 3-month period of 1984 was carefully discussed at the session of the Council of Ministers which was held yesterday. It was pointed out that the plan had been fulfilled with respect to the basic indices. In comparison with the first 3-month period of last year, cumulative profit, the social productivity of labor, and net and total manufactured production have increased. The quality of industrial production has been improved. Retail goods turnover has increased. There has been continuous improvement in the population's living standard.

The preparation for and the actual National Party Conference on Quality has played an active, stimulating role in fulfilling the plan, in maintaining steady rates of economic growth.

The shortcomings in the work of individual ministries and economic organizations with regard to fulfilling the plan were criticized and analyzed.

The Council of Ministers recommended that ministries, administrations, and executive committees at the okrug people's councils take all the necessary measures for quickly offsetting the slowdown in fulfilling the plan, caused by certain economic organizations and enterprises; for improving the correlation between growth in labor productivity and in the average wage; for speeding up the inception of construction projects with deadlines and the construction of apartments, and attaining the planned indices; for achieving the planned indices in the production of all basic products and doing away with outmoded and ineffective production.

The government obliged the managements of ministries, administrations, executive committees at the okrug people's councils, and economic organizations to improve their operational interrelationship, to create the necessary conditions for stimulating the workers' collectives, and to provide for comprehensive and smooth fulfillment of the plan at each economic organization and enterprise during the second 3-month period of the current year. Particular attention should be devoted to the full use of intensive factors of development by further improving the quality of production, raising labor productivity, using material resources more thriftily, and quickly and

widely implementing scientific and technical achievements, on the basis of consistent application of the economic approach and mechanism. The work on bringing the internal rules of the Wage Fund into compliance with the requirements of the regulations of the economic mechanism should be completed within a short period of time.

12334

CSO: 2200/111

READERS' LETTERS EXPOSE POOR QUALITY OF CONSUMER GOODS

Sofia OTECHESTVO in Bulgarian No 6, 1984 pp 11, 12

[Article by Luchiya Tsvetkova: "Ten Failures Multiplied by...?"]

[Text] I was not looking for defective Bulgarian goods on purpose. I simply wrote down what I heard from friends, acquaintances, colleagues, and neighbors who have recently bought some domestic items from stores in the capital. Are they satisfied with the quality?

Furniture Renovation

I had been visiting the Yavor furniture store for more than 2 months, looking for an Emona wall unit. There was a waiting list, but I lost my turn several times. Finally, I succeeded. I then had to hire a carpenter to put it together--the store could not send one right away, they said. The first unpleasant surprise: it turned out that the doors were not the same color! There were four of them--neither white, nor yellow, "manufactured by Chayka," the specialist said.

He did put the doors on symmetrically. (Later on my guests confirmed that the set was very original.) One of the small glass doors was not put in because the glass had been broken somewhere along the way; we are afraid to touch the rest of them, fearing we will break them. There are holes for screws, but not all of them are in the right place. Despite the efforts of "our" carpenter, some of the doors of different cabinets are pushed in, and others stick out. In general, it is a "beautiful" looking set, for which I paid 948 leva, including delivery and assembly--1025 leva.

Did I make a claim? Yes, I did. They came and checked it out, they noted it down. Now, I am waiting. It is not something you can put on your back and return!

-----

I bought two Venko corner beds from the Moskva store (fourth kilometer). I called a relative, who is something of a specialist, to help me put them together. Everything was so complicated that we barely finished in one day. Instead of putting on four solid legs, with strong screws, the manufacturer had put in one cross-piece, which was difficult to attach firmly to the whole

structure. The holes did not match--one has to be a virtuoso to fit the nut to the bolt. Those so-called nuts are made of plastic--they are not only poorly made, but they do not fit the pre-cut holes and fasten to the appropriate bolt.

Anyway, we managed to put the beds together. The side pieces, however, are not very stable. They are not very firmly attached, and the slightest pressure, including lying on the bed, makes the pieces fall down. Many of our guests, and we too, have found ourselves on the floor, after sitting on or leaning against these pieces! This ill-fated purchase was made barely a year ago. Should I make a claim, should I argue? They would say that there is nothing missing, that nothing has been broken. Yes, this is true, except that saying this does not get the work done.

-----

There used to be a small furniture store next to the 110 Orion bus stop, which was closed recently. I bought several stools there (8.10 leva apiece)--they did not look too bad, and the design was pleasant. When a person is pressed for time, he does not look at everything. Thus I did not notice right away that the bottoms of my stools were made out of pressed cardboard, rather than some more solid material. By the way, it is possible that all the stools have pressed cardboard in them. I do not know how long they are supposed to last, but mine collapsed in 3 or 4 months, and not only did they collapse, they also began to fall apart in other ways--the fabric with the filling underneath goes to one side, and the seat gets thinner on the other side, it gets stretched here and there...Quality work, nothing more needs to be said!

-----

I bought a Neli-2 bookshelf wall unit, made in Khaskovo, at the Yavor furniture store. It cost 900 leva. You know how such merchandise comes--in boxes; you get to see it at home. Our unit came with a scratched finish and two left doors for the cabinet, the pressed board was glued in many places. Should I have written to the manufacturer to have them send a replacement, and what if this kind of unit is not production anymore? Too much trouble! I did switch the left door for a right one, and as for the glued pressed board inside--you do not see it anyway...

#### A Movable Television Set

I decided to buy a portable Sofia-31 television set. I had heard, when they first appeared on the market, that they used to break down very quickly, but I had hoped that they might have been improved in the meantime. Besides having a television is like getting married--sometimes you are lucky, sometimes you are not!...

Unfortunately, I was not lucky. In less than 1 year I had to take it in for service three times. It seemed that they would repair the set, and it would work for a day or two, then it would lose the sound and picture again. It would sit for months in my room without working--I do not have the time to take it in for repairs, and in the winter I have to worry about carrying it

in the cold and snow. I got tired of dealing with it, but I still have to visit the service center so that the question can be settled fairly: they should either replace the set with a new one, or give me my money back. This is something that can be done after four complaints--this is a requirement according to the warranty.

All this cost me a lot of time and nerves. But what about the manufacturers?

With ELVA and Without

Last winter our radiators (I live in the Lyulin complex, fourth microrayon) did not produce the necessary heat and we had to buy an ELVA electric heater because of our baby. It broke down in less than a month. I could not find the warranty, so I took it to a regular service center. The switch was broken. They put in a new one. In a month the heater burned out again. I thought it was the switch again and took it to the service center. They confirmed my "diagnosis," but, they did not have any in stock right then. I went to another service center--they decided the damage was somewhere else. Finally I arrived at home to find that one of the two heating elements had been broken along the way! Well, there was nothing else to do but buy another ELVA. In a month it was already smelling of burnt bakelite...Obviously, we would have to spend money for a new switch again.

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In June 1982 I was given an apartment with a kitchenette in the Lyulin complex, block 706. Although it has steam heat, the temperature during cold days does not exceed 13-13°C, so I constantly plug in an electric heater. This is not only true at my place--all the apartments from the first to the sixth floors of our wing are cold. We have appealed to various authorities. One day two soldiers came and took almost three buckets of muddy water out of the pipes. It seems that the radiator itself is of poor quality, because the pipes are warm, but the radiator itself is cold! A certain commission discovered that there was a technical failure, but...does that make me any warmer?! It turns out that I am paying for the installment of the radiator alone. I will not even speak about the uninsulated walls and windows, about the cracks which we stuff with foam rubber, about the toilet tank, which works for 1 day and is out of order for 5 days...

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I live in Lyulin, block 706. There is moisture in the apartment. It appears on the wall, forms mold, the wallpaper becomes unglued, and the plaster in the kitchen has turned black in several places, to say nothing of the linoleum in the kitchen, and in one of the rooms, which looks like a meadow infested with moles. Our steam heat system does not work properly, and the insulation is beyond criticism. We tried to cover the holes with whatever we could--with molasses, with cellophane tape...The cold comes in through the windows, and with the door a draft is created too, although we try to plug things up.

Vida or Michelin?

Three months ago, I purchased two 165 x 13 Vida sport tires for a Moskvich. The price is familiar: 72 leva each, so I paid 144 leva total. Although they were properly used (that is, maintaining normal pressure according to the technical requirements), one of the tires expanded along the sidewall, which is not safe for driving. I will make a complaint about this, but I do not think there is much point in doing that because they generally say that the product was not properly used. I have been driving for 15 years and spend most of my time behind the wheel...The question will be solved by buying Michelin.

Speaking of the defect, how can I explain this expansion? The rubber in our tires is good, but the plies are not interwoven properly, that is, the fabric was not properly installed.

Now that I have started telling my story...I purchased a Perla-04 automatic washing machine, of Bulgarian manufacture, made in Varna. Bad luck again! In the second month water was all over the floor. Now I have to make a claim against it. One is afraid of buying a big appliance for the home!

Do It Yourself...

I was looking for boards at the Central Department store, in the do-it-yourself department; I wanted to make a screen with some panels. The boards were crushed and broken; people were almost walking all over them. I did not buy any, of course, I looked for aluminum sheets--they were also crooked!

But let us take something quite small--light bulbs. I buy them all the time and they burn out all the time--they do not last even one-quarter of the time specified for normal use. Why? Because the air has not been entirely removed from inside them, the necessary vacuum is just not there--so the bulb turns white and burns out. And now I would like to mention the parts for plumbing--the elbows always have air pockets; when you screw them on, water starts leaking through...I am not satisfied with the quality of our Bulgarian records, they are warped, they skip...These are all things which you cannot take care of by yourself!

12334

CSO: 2200/111

EXAMPLE OF STRAINED LABOR RELATIONS EXPOSED

Sofia ANTENI in Bulgarian 11 Apr 84 p 2

[Article by Georgi Kardanov: "Let's Go Fishing Together"]

[Text] A machine building plant, a skillful turner who was crochety by nature...But could he change hardened customs all by himself?

Pavel Grigorov works in a machine building plant in a town in the countryside. They say he is one of the best turners; he always has the least waste, and he would never embezzle anything for himself--not even a screw! Such workers are honored unconditionally. There are just one thing--the man was crochety by nature...

Once he dared to mention to the brigade leader and the foreman of the shift that materials were being wasted: a small circle is cut out of a whole piece of galvanized sheet iron and the rest is thrown away...Instead of thinking about this, they both yelled at him. So he was the one to teach them, someone who was still "wet behind the ears, and they were the founders of the plant ...". Pavel replied that this waste would be recovered out of his pocket, but from the state's pocket as well, generally speaking. Finally they both got really angry and snarled that if he were against them, that meant he was opposing the people's government too!--so he should be watched.

Instead of order, the brigade leader and the foreman of the shift had created their own "rules": everyone could work whenever he wanted, everyone could take whatever he wanted, imported materials were wasted. But the "wierd guy" showed his cloven hooves again--he wrote a letter to the Committee for State and People's Control. When its representatives showed up, however, they only shook hands with the person who had sent the letter and then conducted their check, accompanied by the brigade leader and the foreman of the shift, of course. So it turned out that there was no misuse of materials, some people had just caused "unfounded alarm." A day or two later, the workshop foreman called him and told him that "he was standing in the collective's way," "he was undermining the authority of his direct superiors," and that he was "in opposition to the workshop's management."

"I was really upset," Pavel went on, telling me about his "odyssey," "and I replied that I had seen everything myself, and that reports about misuse would not raise salaries."

The next day, everyone in the plant knew that this young man from the machine repair shop was a "troublemaker," "incorrigible," a "troubled person," a "difficult person to get along with." They did not wait for too long: "How could I have continued working there if everyone were against me?"

A week later Pavel moved to the foundry, with higher pay, in a workshop for diesel engines. Everything went normally; they quickly learned that his "hands were made of gold," that he was a conscientious worker. A young engineer came to work at the foundry. "There was nothing he could not do," Pavel continued his story. "An assembly line for automatic painting of diesel engines was not working, it was obviously abandoned; the young engineer repaired it in a week or two, so it began working again and instead of 7 to 8, we were painting 30 to 40 casts."

The young engineer Antoni P. made other changes as well--in the casting workshop, in the smelting workshop, when...Well, when the chief foreman of the workshop cut him off. Before the young engineer had come, old Gergo was the highest "authority," although after Antoni P. arrived, it became clear that Gergo was just an "amateur." He could not swallow this, however, so he began to complain. The young man was the "manager" here, "he did not consult the collective," "he does not respect the old cadres," and to top it all, he is an "individualist," "self-reliant," he had turned the foundry into "his own property..."

If he was well trained for his profession, he was still far from being prepared for life, so the young engineer was taken aback, he withdrew into his shell and did not undertake anything anymore. "But I was very angry that a young, talented lad was about to be wasted for the sake of someone's superciliousness." Pavel spoke along these lines at the meeting held the next day on improving the organization of labor and introducing technical progress, but they cut him off, and told him that he did not have the right to call an older man a "burly fellow."

"How can he be our comrades," Pavel wrote angrily to the local newspaper, "if he prevents a young, talented, and needed specialist from working under normal conditions and with a vigor which would be advantageous to the whole enterprise? Why put down a skillful engineer, who would have introduced a technical progress in the foundry and innovations in foundry science, for the sake of someone's ailing ambitions and touchiness?"

After the newspaper sent a copy of the letter to the management of the foundry, the latter reprimanded him, saying that the tone of the letter was inadmissible, that there had been "warning signals" about him from the previous plant, that he did not "respect" the leadership there either, he had created "rifts within the collective," and...And it would have been better if he had remained silent, the relationship between old Gergo and the engineer would have settled down on its own; such "petty frictions" were natural.

So the relationship "settled down" after they stopped the assembly line, at old Gergo's request, because it "was making too much noise," and engineer Antoni P. could not stand that, so he quit. Pavel went directly to the

director general, who listened to him carefully and took notes, but when they investigated the workers took old Gergo's side, and why not?--the old man did not worry too much about quality, he was used to letting them go fishing during work hours, and they were paid the same amount anyway, without having to put more work in, because of the innovations. They began turning their backs on Pavel as well, and the only place left was the Ministry of Machine Building. "But as soon as I imagined that someone there would cut me off as well--and say something like 'Is that you again, why don't you pipe down finally?'--I gave up and threw the letter away..."

After a painful internal struggle, Pavel decided not to stand in the way. "There are bumps in the parts, the casts are not made according to the standards, they crack easily, they are poorly finished; the claims keep growing and production is being returned for refinishing, so the foundry is running at a loss, and so is the state--but what do I care? Let the others worry about it, the ones who are not 'troubled' people...As far as I am concerned, I am not going to look for trouble anymore--neither at work, nor at meetings. I will take my pay, I will look after myself, and I will leave my nerves at home in the morning when I go off to work--they do not pay me for giving advice, but for producing a certain number of parts!..."

"Even those I used to criticize for the misuse of materials, now we go fishing together. It happens that way--during work hours, too..."

12334  
CSO: 2200/111

LACK OF SANITARY CONTROL ON IMPORTED VICTUALS DEPLORED

Sofia STURSHEL in Bulgarian 13 Apr 84 p 1

/Article by Nayden Iliev: "The Highest Form of Trust"/

/Text/ To the attention of the Ministry of Foreign Trade, the Ministry of Public Health, the Ministry of Consumer Goods Production and Trade, and the National Agroindustrial Union.

A young mother is walking down the street, by one hand holding a little boy and a little girl, and in the other carrying a bag of oranges. The oranges glow an appetizing orange, and the children are skipping along joyfully--they are on their way home, where their mother will peel them each a juicy orange. It would be no surprise if she were to candy the peels or dry them out for tea. The mother will make every effort to nourish the future generation, and our future nation, with vitamins.

But neither the mother nor the hope of our nation know that these oranges can do more harm than good, because no one has told them so, at least out of humane considerations, even though the Greek import firm has placed rather large signs at the cash registers bearing the inscription: "The rind has been treated with chemicals. Do not eat the rind!" Well, it is true that the signs are in English. But can it be possible that, in a country like ours, with compulsory education, with a plethora of foreign-language high schools, colleges, elementary schools, etc., not one person employed in Bulgarplodeksport, Bulgarkontrola, or the marketing organizations knows enough English to translate the signs, so that a warning could be displayed in the stores in Bulgarian?

It is another issue altogether why these oranges should have been imported at all, since they do not conform with Bulgarian governmental standards. This was done without a health permit from the Federal Health Inspection Agency of the Ministry of Public Health--in flagrant violation of Art 26, Par 4 of the Statute on the Enforcement of the Law on Public Health and of Ordinance No 5190 of the Ministry of Public Health.

The import firm and Bulgarplodeksport assure us that a technical error was committed--the oranges are in order, but the boxes were intended for another country, and for lack of boxes these were used for the oranges.

All right, then, let us accept this explanation. But my knowledge of geography tells me that there is no other capital city of Sofia in the world, nor is there any other marketing organization Bulgarplodeksport, and the boxes are clearly labeled: Bulgarplodeksport, Sofia, Alabin St. No 22. This is followed by the warning that the oranges must be wahsed before eating and that the rinds must be discarded.

But keep calm, dear reader! The more than 300 tons of oranges under discussion were imported in late December of last year. They were eaten long ago, fresh, in the form of candied orange peel, and in tea. Primarily by the growing generation, of course. By the same generation on which our society is expending millions of leva to assure its health and happiness. If I appear to be stressing this fact it is not to scare you but to draw your attention to another point.

Believe it or not, dear reader, we are one of a small number of countries in Europe which has no border health inspection of imported goods of plant origin. We have a Quarantine Service, a Plant Pathology Inspection Service, and a State Veterinary Health Inspection Service, but foodstuffs of plant origin remain uninspected! In practice they are imported in trust--the agreement is signed months before a sample is delivered. A health permit is granted on the basis of this same sample. But when the goods themselves are imported, God alone, i.e., nobody on earth, knows just what they are. They rely on the certificate of quality issued by the import firm and on the employees of Bulgarkontrola, who are scattered about hundreds of unloading points around the country and have no laboratory facilities. Even if they had, what good would this do once the goods have already entered the country?

Of course, the Ministry of Public Health has laboratories for the study of the quality of and microbiological indices of imported products, but the Federal Health Inspection Agency has no power to monitor importation at border points, only in stores. It uses the so-called selection method--choosing some product at random and investigating it. Or it waits for a complaint from the consumers. But such a complaint is usually much too late--either the goods have already been sold and consumed or it is too late to get a refund from the importer. This was the case 2 years ago with lentils treated with DDT, with olives and bay leaves treated with chemicals, with instant coffee containing banned dyes, etc. Soon after a consumer complaint was made, it was determined that 50 tons of coca beans purchased by the Pobeda Bulgarian Agricultural Combine had a bad smell and an unpleasant taste, and we were compelled to discard over 13 tons of chocolate candy.

It is logical to ask how many other imported food products of plant origin eaten by consumers do not conform to standards of taste, nutrition, health, etc., without these consumers registering any formal complaint. Our citizens are not specialists in everything, nor do they have the opportunities or the necessary training to set up a chemical laboratory in their homes.

The other side of the problem is that we are one of a very small number of countries that do not yet have any ordinance for a permanent inspection agency for food products of plant origin. To be sure, plans are currently in progress for the issuance of such an ordinance, but this is still in the planning stage, and when preparations will be completed is anybody's guess.

What is the result of all this, dear reader? We have no incoming border health inspection, no ordinance for a permanent inspection agency, and thus we are left with nothing but trust. But in this "wild and woolly world" you cannot place too much confidence in anybody's morals. This means that it is high time for the motto "Inspection--the highest form of trust" to be put into practice by all those who are responsible for the importation of foodstuffs. The health of our nation is at stake, a commodity which cannot be assigned a monetary value!

In other words: "Respect to all--credit to none," in the sense of no trust in advance.

9832

CSO: 2200/114

# LATE DISTRIBUTION OF NEWSPAPERS CRITICIZED

Sofia STURSHEL in Bulgarian 13 Apr 84 p 3

/Article by Vl. Cheshmedzhiev: "Is Today's Reader Yesterday's?"

/Text/ Bulgaria is probably near the top of a list of countries in the world arranged by "number of newspapers per capita" or by "number of newspaper subscriptions sold." We could draw a number of correct conclusions from these figures--that the Bulgarian nation is politically literate, and involved, that it is curious by nature, and other things pleasant to hear.

But let us discuss a few unpleasant facts connected with the distribution of our newspapers, in particular, of the daily press. The index "number of newspapers" has not been adequately analyzed.

We requested 15 managers of local information bureaus whose regions are far from the capital city to clarify this issue for us. Their letters are proof of something which can easily be understood--that the distribution of the press can be delayed for shorter or longer periods, in that a newspaper must be printed, loaded, unloaded, sorted, delivered, etc. There was complete unanimity regarding the lack of mechanization and motor vehicles, and the effect of weather conditions. There is also a shortage of mail carriers, who are required by law to carry six kgs at most, while their bags often weight twice that or more. Etc, etc. The picture is a diverse and nearly incomprehensible one. But it can all be summed up in a few words--the newspapers arrive late.

Even while they are being printed it is already clear that, with regard to their "news" content, they are nothing other than processed paper and wrapping materials.

Apart from train delays, the inhabitants of Siliven, for example, complain that many bundles of daily newspapers arrive on the following day, while other bundles are torn or misplaced. One-third of the towns and villages of the Yambolski region receive their daily newspapers the day after they are published, and if the train is an hour or two late, the Sunday news will not be read until Tuesday or even Wednesday. Press Committee employees confirmed that approximately 80 percent of the towns and villages in Bulgaria have this problem.

Every subscriber does what he can with the newly arrived old newspaper without dramatizing things especially. But batches of newspapers from yesterday or the day before intended for nonsubscription sale simply pile up in heaps. These are losses covered by the "economic risk" funds of the Ministry of Communications. But the scrapping of this industrially important raw material is delayed, which in turn delays important recycling processes. In Varna, for example, piles of late and therefore unsold newspapers accumulate for a whole year.

Let us see how distribution of the press is facilitated by the fastest means of transportation.

The more distant regions obtain newspapers from the capital by air on the earliest commuter plane, which sets out in the direction of Burgas, Turgovishte, Silistra, Vidin, Gorna Oryakhovitsa, and Ruse. The idea is a good one. But here is what happens in practice--the post office employees of Silistra have sent us a rather long list, from which it follows that in November and December of last year inclement weather conditions meant that the plane from Sofia arrived on time only 25 times.

It was delayed 15 times by 4 to 5 hours, 10 times it landed in Varna or Burgas, in 4 cases (where the fault was that of the printer) there were no newspapers in it, and 7 times there was no plane at all.

The newspapers intended for readers in Varna and Tolbukhim are delivered by a single specialized freight plane which arrived at Varna Airport at 9:30. The daily paper gets to Tolbukhim 1 hour after this and arrives at the distribution centers at about 3 pm, and in Zlatni Pyasutsi and Albena an hour or two later. This is how it is according to schedule. But from October to February this plane was late 85 times, 20 of these times by more than 2 hours, and 8 times the flight was cancelled. Could it leave earlier? The captain tells us that a night flight would be possible if the plane were to be loaded at 3 am and take off immediately, but in practice this is impossible for the simple reason that it cannot be loaded by 3 am. This is because the only purely newspaper-delivery plane is not the first to take off from Sofia, as we would expect, but the last, waiting for the last daily newspaper to be printed.

What is the actual "news" value of the daily newspaper which we take out of our mailbox every evening? Is it not all the same whether it is left there at 9 am or 5 pm--both for the reader in Durankulak and for the reader in the Lyulin district /of Sofia/?

The subscriber leafs through it briefly, since has already heard the news during the day--for example from the "Horizon" radio station. After this he eats and lies down on the sofa to "sink his teeth" into the evening news program "Around the World and at Home."

There is nothing to keep us from dreaming about the air delivery of not tons of paper but rather only kilograms of lead castings. Instead of freight planes, which waste valuable fuel, an electrical impulse costing only pennies could be sent out, delivering pages of news in seconds, the actual physical newspaper could be printed outside of the capital city. But for now these are fantasies.

Another idea is more realistic--the daily news intended for the provinces and perhaps for subscribers in the capital city could be stamped with tomorrow's date, decreasing its "new" content and not trying to compete with television and radio. In the era of the scientific and technical revolution it is very hard to convince the reader that a newspaper with an old date and a paper wrapping are not of equal value.

Even if the newspaper is yesterday's the reader is not.

9832

CSO: 2200/114

BASIC TRENDS IN CAPITAL REDISTRIBUTION BY FEDERAL BUDGET 1970-1982

Prague FINANCE A UVER in Czech No 1, 1984 pp 9-24

[Article by Eng Miroslav Havel]

[Text] One of the main functions fulfilled by the state budget in a socialist economy is that of redistribution. Theoretical research on this problem, including issues of the improved utilization of this function are important both in and of themselves as well as in the broader context of efforts to utilize financial policy and its mechanisms more actively to foster the intensification of economic development.

The practical realization of the redistribution function of the state budget, particularly as this relates to the economic sphere, is connected to the solution of a number of problems. At the same time, some mechanisms of financial policy are frequently criticized. This is especially true of subsidies granted from the state budget, which are usually presented in a simplified manner as mechanisms serving to overcome the consequences of poor management by certain enterprises, i.e., as a mechanism the use of which occurs for subjective reasons. The objective of this analysis, which only peripherally touches on several theoretical issues of the redistribution function of the state budget, is primarily:

--to analyze the major trends in the redistribution of capital through the state budget, above all that which is earmarked for relationships with economic entities;

--to point out the connections and ties between financial development and certain other mechanisms of economic policy, especially prices, and to illustrate with certain examples the influence of price and methodological changes on the development of financial resources and needs, and therefore of transfers to the state budget and subsidies from the state budget;

--to attempt to identify possible near-term trends in the development of subsidies from the state budget, as well as possibilities for limiting and terminating these subsidies.

## The Objective Necessity for Capital Redistribution and the Position of the State Budget Among the Redistribution Instruments

### General comments

The objective necessity for capital redistribution stems from the unity and at the same time the relative independence of the individual aspects and phases of the reproduction process. The primary incomes of the population and of society which arise in the process of material resource formation (social product and national income) are transformed in the process of their redistribution into the final incomes of specific economic entities, and are an essential precondition for realizing the needs of these entities. In terms of these relationships, capital redistribution represents a specific form of the redistribution of national income.

From an institutional viewpoint the state budget and the credit plan are basic mechanisms for capital redistribution which assure this redistribution on the principle of nonrepayability or repayability, respectively. In a wider economic context, it is essential to consider prices, and the price system, as a mechanism for redistribution which by its specific organization and resolution of such issues as the shift of net income from Group I of social production to Group II, and from sales taxes to profits, etc., creates the initial situation for the functioning of additional capital redistribution measures. Generally speaking, the redistribution of these resources pursues the following two main objectives:

- assuring the capital necessary for the functioning and development of the nonproduction sphere;
- assuring the capital for the implementation of proportional development and structural changes in the production sphere, including the representation of the price function in some instances.

In view of the fact that the repayable redistribution of capital may be used basically only in relation to organizations of the economic sphere, while non-repayable redistribution is used in relation to organizations of the non-production sphere (by budgeted and contributory organizations) as well as to organizations of the economic sphere, the scope of nonrepayable redistribution under our conditions may be considered to be greater than the scope of repayable redistribution. In any event, the mutual proportions of these two forms of capital redistribution represent a serious problem for financial and credit policy.

From a recipient's viewpoint, capital redistribution takes place:

- between organizations of the production and nonproduction spheres;
- within the production sphere, between individual branches, sectors, etc.;
- between the state and the population;

--between territorial entities, for instance, oblasts;

--between the domestic and the international economy.

From a grantor's viewpoint, the subject of redistribution is the social distribution fund, which encompasses various forms of net income (profit, sales tax, social security contributions, etc.), a portion of the individual distribution fund (which in the production sphere includes mostly wages), and a portion of the material cost replacement fund (containing depreciation allowances, among other things). From these bases of redistribution it also follows that the redistribution process may also include secondary and other incomes and revenues generated during it.

In terms of the position in the management system which capital redistribution assures and organizes it is necessary, in addition to the state budget (including the budgets of national committees and their funds) and the credit plan, to list other forms of centralized redistribution such as state funds, state positive and negative financial accounts, and funds of financial and insurance organizations. In addition, capital is redistributed in a decentralized manner based on established regulations at the economic production unit [VHJ] and sectoral level.

Factors influencing the scope of redistribution of capital through the state budget

The scope and forms of capital redistribution are among the basic issues which must be resolved by economic, and primarily by financial and budget policy. Decisions on these matters cannot be autonomous, but must be based on, above all:

--the achieved level of economic and social development and the concrete development objectives established in the state plan;

--the necessity for integrating the basic material and financial relations and proportions in the development of the national economy and, from this viewpoint, for sharing in the implementation of tasks focused primarily on the achievement of greater effectiveness, economic equilibrium, the assurance of structural changes, etc.;

--the necessity for a coordinated approach on the part of all components of economic policy which make use of economic mechanisms based on material-monetary relations;

--the necessity for integrating views based on public requirements with those based on the needs of the khozraschot sphere.

The main factors influencing the scope of capital redistribution through the state budget including primarily:

a) the level of development of the social needs of the population and society. The high level that our country has achieved is reflected in the large share of budgetary outlays allocated to the social and cultural areas (in 1980 this amounted to Kcs 144.3 billion, or 47.4 percent of total budgetary outlays; in the USSR, for example, this percentage was 34.7, and in the Romanian Socialist Republic 20.9). Providing for this demands that a substantial volume of financial resources be centralized in the state budget. These issues are connected with the level of development of so-called enterprise public consumption, which is financed through costs and through the cultural and social services fund (in 1980 this amounted to Kcs 8.1 billion in economic organizations managed centrally and by national committees). Forms of housing construction and their financing techniques also influence the scope of capital redistribution through the state budget in this area. For these and other reasons it is necessary to consider any international comparison of the percentages of state budget outlays for social and cultural programs, as well as for services and programs for the population, as orientational.

b) price factors, i.e., the price system in particular, the means for integrating individual price groups, price levels within specific groups, the profitability level attained through pricing, and the type of wholesale prices that are used. In conjunction with specific pricing groups there are financial mechanisms which take various forms (such as financial and economic mechanisms for foreign trade, subsidies and interventions in agriculture and the food industry, etc.), but it is basically a question of transfers or of subsidies. In general there is a greater need for them the greater the differences in the price levels of individual groups are. Moreover, the specific determination of prices in instances of critical raw materials, other materials and the like has a great influence on redistribution relations.

c) the system of enterprise transfers to the state budget and their specific forms. From the viewpoint of the scope of capital redistribution, a system of transfers conceptualized on the following basis behaves differently and places different demands on subsidization:

--when there are relative transfers with a single transfer rate, although this also depends on the level of this rate,

--when there are relative transfers with differentiated transfer rates by sector,

--when there are individual transfers calculated on the basis of the planned utilization and formation of capital in the financial plan.

d) concrete forms of financial management and of financing the needs of economic and cooperative organizations, including the scope of use of subsidies from the state budget and credits.

e) the existence of state funds, the scope of capital redistribution implemented through them and the relationship of these funds to the state budget (at present there are three state funds in our country: for soil enrichment, for air quality protection, and for water management; the total volume of their revenues, including contributions from the state budget, amounted to Kcs 3.7 billion in 1981).

f) decisionmaking techniques and the scope of authority given to a VHJ and sectors in capital centralization and redistribution (profits and depreciation) among enterprises and/or VHJ's.

## Scope and Intensity of Capital Redistribution Through the State Budget

### Basic trends in redistribution intensity

Issues linked with the problems of distribution and redistribution of capital from the state budget are related to the theoretical problems of the distribution function of the state budget.

In the practice of financial analysis a problem exists of the lack of concrete techniques for measuring the intensity of this redistribution.

The most common measurement technique is to calculate the state budget as a percentage of the national income, which is used as well for purposes of international comparison. The size of this percentage determines whether the role of the budget in the redistribution of the national income will be greater or lesser. In our opinion this is a fairly crude measuring tool which has several problems, including the following:

--it would be economically correct to compare the state with the gross national product expressed in current prices (including depreciation); this indicator however, is not yet published;

--we consider it better to speak of the "relationship" of the state budget to national income than to the state budget as a "percentage" of national income; this is because in the latter case the question logically arises that if this percentage is 65 percent, what constitutes the remaining 35 percent? This is possible, after all, to respond to verbally (it is primarily a question of the share of the enterprise sphere), but it is impossible to express quantitatively, because we do not have the requisite basis for such an assessment.

We consider the percentage of the total volume of payments made within the context of national income redistribution represented by the state budget as a more objective measure of the intensity of redistribution. In practice, however, this technique is utilized only occasionally (the calculation is made on the basis of the aggregate financial accounts, which are compiled only as a statistical balance).

An additional potential yardstick for monitoring the goal stated above is the state budget as a percentage of the overall financial plan which may be expressed without any difficulty as plan and reality.

The concrete results of the three techniques given above for measuring the intensity of capital redistribution through the state budget for the 1970's is shown in Table 1.

Table 1 (all figures are percentages)

| rok (1) | (2)                                 | (3)                                | příjmy SR (4)                     | (5)                     |
|---------|-------------------------------------|------------------------------------|-----------------------------------|-------------------------|
|         | příjmy SR <sup>a</sup><br>tvorba ND | výdaje SR <sup>a</sup><br>užití ND | platby v rámci<br>přerozdělení ND | příjmy SR<br>zdroje ÚFP |
| 1970    | 65,9                                | 64,6                               | 48,5                              | 62,6                    |
| 1971    | 66,8                                | 67,9                               | 46,6                              | 64,2                    |
| 1972    | 64,5                                | 65,3                               | 49,2                              | 61,1                    |
| 1973    | 66,7                                | 66,7                               | 48,8                              | 65,8                    |
| 1974    | 67,6                                | 66,7                               | 49,5                              | 62,5                    |
| 1975    | 67,8                                | 67,0                               | 49,1                              | 65,4                    |
| 1976    | 69,9                                | 68,6                               | 47,5                              | 61,1                    |
| 1977    | 67,7                                | 66,8                               | 46,5                              | 65,6                    |
| 1978    | 65,4                                | 64,9                               | 44,5                              | 65,6                    |
| 1979    | 64,0                                | 64,3                               | 44,5                              | 61,4                    |
| 1980    | 63,0                                | 63,6                               | 44,6                              | 63,9                    |
| 1981    | 66,0                                | 68,4                               | 43,4                              | 64,3                    |
| 1982    | 63,8                                | 66,4                               | —                                 | 60,1                    |

Key:

1. Year
  2. State budget revenues/national income formation
  3. State budget expenditures<sup>a</sup>/national income utilization
  4. State budget revenues/payments related to national income redistribution
  5. State budget revenues/central financial plan resources
- a) Here, and elsewhere in article, this includes national committee budgets

The preceding comparison indicates, basically, that during the Fifth 5-Year Plan a trend developed towards an increasing share for the state budget in the redistribution of capital, while during the Sixth 5-Year Plan an opposite trend developed (the increased share in 1981 was due primarily to the first stage of wholesale price modifications). These changes are reflected in the growth rate of national income and the state budget, as shown in Table 2.

Table 2

|                                     | <u>1975/1970</u> | <u>1980/1975</u> |
|-------------------------------------|------------------|------------------|
| National income (in current prices) |                  |                  |
| --Formation                         | 131.3            | 119.1            |
| --Use                               | 135.8            | 116.9            |
| State Budget                        |                  |                  |
| --Revenues                          | 135.1            | 110.1            |
| --Expenditures                      | 140.9            | 111.1            |

The reduced growth rate of the state budget during the Sixth 5-Year Plan reflects not only the reduced rate of economic growth, but other factors as well, such as price development, methodological changes, etc.

An international comparison with both capitalist and socialist countries attests to the high volume of the state budget in relation to national income. This is influenced above all by the developed system of social security and the level of expenditures in other areas of the social consumption of the population. The structure of budgeted expenditures, however, also shows a relatively large amount of subsidies from the state budget to economic enterprises. Calculations show that even in the hypothetical instance of the termination of all subsidies to economic organizations, the state budget would still represent about 50 percent of the national income.

Development of the structure of revenues and expenditures of the state budget

For the purposes of this analysis, which is directed primarily at the main trends of development and the factors influencing capital redistribution between economic organizations and the state budget, revenues and expenditures have been divided into only two groups--revenues and expenditures related to economic organizations, and other revenues and expenditures. Revenues from economic organizations and their share of total budgetary revenues are presented in accordance with the line item composition of revenues, i.e., they do not include transfers of sales taxes or domestic market differences, even though almost 95 percent of these transfers come from economic organizations (the remainder come from cooperative organizations). Table 3 shows the development of the structure of the budget from this viewpoint.

Table 3 (all figures are percentages)

| <u>Year</u> | <u>State budget revenues</u>              |              | <u>State budget expenditures</u> |              |
|-------------|-------------------------------------------|--------------|----------------------------------|--------------|
|             | <u>Economic organizations<sup>a</sup></u> | <u>Other</u> | <u>Economic organizations</u>    | <u>Other</u> |
| 1970        | 40.8                                      | 59.2         | 23.3                             | 76.6         |
| 1971        | 40.3                                      | 59.7         | 25.0                             | 75.0         |
| 1972        | 39.3                                      | 60.7         | 21.8                             | 78.2         |
| 1973        | 40.2                                      | 59.7         | 23.0                             | 77.0         |
| 1974        | 41.7                                      | 58.3         | 24.4                             | 75.6         |
| 1975        | 40.8                                      | 59.2         | 27.5                             | 72.5         |
| 1976        | 45.4                                      | 54.6         | 30.5                             | 69.5         |
| 1977        | 39.1                                      | 60.9         | 25.0                             | 75.0         |
| 1978        | 39.1                                      | 60.9         | 22.8                             | 77.2         |
| 1979        | 38.8                                      | 61.2         | 21.5                             | 78.5         |
| 1980        | 39.8                                      | 60.2         | 20.7                             | 79.3         |
| 1981        | 41.4                                      | 58.6         | 20.8                             | 79.2         |
| 1982        | 39.9                                      | 60.1         | 17.4                             | 82.6         |

a) This is not interchangeable with the share of revenues from the socialist economy, which amounts to about 81 percent and includes, in addition to transfers from economic organizations, sales tax, transfers from cooperative organizations, revenues from the activities of budgetary organizations, and other revenues.

From this table it is clear that the share contributed by economic organizations to total budgeted revenues displayed greater stability (less diffusion) than the percentage that subsidies to economic organizations represented of total budgeted expenditures. At the same time the subsidy percentage in the 1972-1976 period was connected primarily with price developments abroad, and the decline in their percentage in future years was related to price modifications and transfers of economic organizations to the budget. This was also reflected in the deficits of economic organizations to the budget and in the evolution of subsidies and transfers of economic organizations, as shown in Table 4.

Table 4

| rok (1) | saldo hospodářských organizací ke SR<br>(mld. Kčs) (2) |                                 |             | dotace hospodářským organizacím<br>odvody hospodářských organizací<br>[%] (6) |
|---------|--------------------------------------------------------|---------------------------------|-------------|-------------------------------------------------------------------------------|
|         | celkem (3)                                             | saldo (4)<br>FENZO <sup>a</sup> | ostatní (5) |                                                                               |
| 1970    | 38,8                                                   | -4,5                            | 43,3        | 53,8                                                                          |
| 1971    | 35,0                                                   | -3,8                            | 38,8        | 60,3                                                                          |
| 1972    | 39,0                                                   | -2,9                            | 41,9        | 55,5                                                                          |
| 1973    | 41,6                                                   | -7,7                            | 49,3        | 57,3                                                                          |
| 1974    | 45,8                                                   | -12,6                           | 58,4        | 58,4                                                                          |
| 1975    | 38,1                                                   | -10,9                           | 49,0        | 66,4                                                                          |
| 1976    | 43,9                                                   | -16,4                           | 60,3        | 66,8                                                                          |
| 1977    | 40,3                                                   | 0,4                             | 39,9        | 63,4                                                                          |
| 1978    | 47,0                                                   | 1,2                             | 45,8        | 58,0                                                                          |
| 1979    | 51,4                                                   | 2,5                             | 48,9        | 55,0                                                                          |
| 1980    | 58,8                                                   | 6,5                             | 52,3        | 51,8                                                                          |
| 1981    | 64,2                                                   | 11,8                            | 52,4        | 50,2                                                                          |
| 1982    | 70,6                                                   | 4,2                             | 66,4        | 43,7                                                                          |

Key:

1. Year
2. Balance of economic organizations in relation to the state budget (in billion korunas)
3. Total
4. Balance in financial and economic mechanisms of foreign trade [FENZO]
5. Other
6. Subsidies to economic organizations/transfers from economic organizations (percentage)

From this it is also clear that during the course of the Sixth 5-Year Plan there began a trend of the gradual limiting of subsidies offered to economic organizations from the state budget.

#### Transfers and Subsidies of Economic Organizations in Relation to State Budget

##### Basic trends in the development of transfers and subsidies

A fundamental feature of transfers and subsidies which has also been evident in the evolution of their balances in relation to the state budget is a shift from a situation during the Fifth 5-Year Plan when subsidies were outpacing transfers to the opposite trend in the Sixth 5-Year Plan, at the same time that the growth rate of transfers slowed and there was an absolute decline in subsidies. This trend is continuing into the Seventh 5-Year Plan, as shown in Table 5.

Table 5

|                 | <u>1975/1970</u> | <u>1980/1975</u> | <u>1982/1980</u> |
|-----------------|------------------|------------------|------------------|
| Total transfers | 135.0            | 107.4            | 102.8            |
| Total subsidies | 166.6            | 83.6             | 86.8             |

The changes in these rates were influenced by a number of factors of a material, pricing and methodological nature which were reflected primarily in transfers from profits, subsidies to improve managerial performance, and investment subsidies. See Table 6.

Table 6.

|                                                             | <u>1975/1970</u> | <u>1980/1975</u> | <u>1982/1980</u> |
|-------------------------------------------------------------|------------------|------------------|------------------|
| Transfers from profits (all forms)                          | 148.8            | 88.1             | 99.5             |
| Total noninvestment subsidies                               | 152.7            | 79.7             | 103.6            |
| of which: noninvestment subsidies excluding FENZO subsidies | 137.8            | 101.2            | 86.0             |
| of which: subsidies to improve managerial performance       | 176.3            | 96.3             | 80.9             |
| Investment subsidies                                        | 106.7            | 90.3             | 61.9             |

From this it is obvious that the decline in subsidies during the Sixth 5-Year Plan was realized mainly in the area of investment subsidies and economic mechanisms of foreign trade, while the volume of other noninvestment subsidies in 1980 was roughly the same as in 1975. After 1980 both these subsidies, but especially investment subsidies, declined.

#### Development of structure of transfers and subsidies

An analysis of developmental trends in the relationships of economic organizations to the state budget over the Fifth and Sixth 5-Year Plans must be made more precise from the viewpoint of the evolution during specific 5-year plans, when there was a number of changes influencing transfers and subsidies and their mutual relations, as well as from the viewpoint of the internal structure of transfers and subsidies.

The development of transfers from state organizations (both centrally managed ones and national committees) to the state budget, including the budgets of national committees, is shown in Table 7.

This table shows, in particular, that transfers from profits are declining as a percentage of total transfers (from an average of 71.9 percent in the Fifth 5-Year Plan to an average of 64.4 percent in the Sixth 5-Year Plan), which has been influenced by developments in the area of economic mechanisms for foreign trade. With the start of the Seventh 5-Year Plan the implementation of the objectives of the Set of Measures will become evident in a strengthened role for profits and their importance for financing the needs of the enterprise sphere.

The evolution of subsidies offered to economic organizations from the state budget, including the national committee budgets, is shown in Table 8.

Table 7

| (1)<br>rok   | (2)<br>odvody celkem<br>[mld. Kčs] | z toho (3)             |                                                |                     |                    | podíl odvodů (8)<br>ze zisku na celkových odvodech [%] |
|--------------|------------------------------------|------------------------|------------------------------------------------|---------------------|--------------------|--------------------------------------------------------|
|              |                                    | (4)<br>odvody ze zisku | (5)<br>odvod příspěvků na sociální zabezpečení | (6)<br>odvod odpisů | (7)<br>odvod FENZO |                                                        |
| 1970         | 84,0                               | 56,9                   | 16,6                                           | 9,1                 | —                  | 67,7                                                   |
| 1971         | 88,2                               | 59,8                   | 17,8                                           | 9,4                 | —                  | 67,8                                                   |
| 1972         | 87,8                               | 62,5                   | 21,3                                           | 3,2                 | —                  | 71,2                                                   |
| 1973         | 97,4                               | 69,6                   | 22,1                                           | 3,7                 | —                  | 71,5                                                   |
| 1974         | 110,1                              | 80,8                   | 23,1                                           | 4,0                 | —                  | 73,4                                                   |
| 1975         | 113,4                              | 84,7                   | 24,0                                           | 2,6                 | —                  | 74,7                                                   |
| 1975<br>1970 | 135,0                              | 148,8                  | 144,9                                          | 28,0                | —                  | 110,3                                                  |
| 1976         | 132,5                              | 98,5                   | 28,8                                           | 3,0                 | 3,7                | 74,3                                                   |
| 1977         | 109,9                              | 67,4                   | 25,9                                           | 3,5                 | 9,2                | 61,3                                                   |
| 1978         | 111,9                              | 68,3                   | 26,7                                           | 3,7                 | 9,6                | 61,0                                                   |
| 1979         | 114,3                              | 71,6                   | 27,7                                           | 4,1                 | 7,7                | 62,6                                                   |
| 1980         | 121,8                              | 74,6                   | 28,5                                           | 4,9                 | 7,4                | 61,2                                                   |
| 1980<br>1975 | 107,4                              | 88,1                   | 118,6                                          | 191,8               | —                  | 81,9                                                   |
| 1981         | 129,0                              | 69,1                   | 29,0                                           | 2,9                 | 17,8               | 53,6                                                   |
| 1982         | 125,3                              | 74,2                   | 29,9                                           | 3,7                 | 11,5               | 59,2                                                   |

Key:

1. Year
2. Total transfers (in billions of korunas)
3. Of which
4. Transfers from profits
5. Transfer social security contributions
6. Depreciation transfers
7. FENZO transfers
8. Transfers from profits as a percentage of total transfers

The evolution of subsidies has been influenced by a number of factors related to material and value relationships and changes in the management system. Some of these will be analyzed further on in this article.

Material and economic context of development of transfer and subsidies

The above-mentioned development of transfers and subsidies must be viewed in its related material, temporal, price and methodological context. These are basically ties connections of the following types:

--the pace of economic development, its fundamental proportions, relationships and problems--the rate of subsidies from the state budget and of transfers to the state budget;

--changes in wholesale prices--changes in the volume of noninvestment subsidies;

--changes in wholesale prices--changes in the impact of economic mechanisms for foreign trade on the state budget;

--changes in transfers to the state budget (especially from profits and depreciation)--changes in the volume of investment subsidies;

--changes in wholesale and retail prices and their aggregate influence on the yield from sales taxes and negative sales taxes.

Table 8 (figures in billions of korunas)

| (1)<br>rok   | (2)<br>dotace<br>celkem | z toho (3)                  |                                                 | z toho: neinvestiční dotace(4)               |                                 |                           |                            |
|--------------|-------------------------|-----------------------------|-------------------------------------------------|----------------------------------------------|---------------------------------|---------------------------|----------------------------|
|              |                         | (5)<br>investiční<br>celkem | (6)<br>ne-<br>investiční<br>celkem <sup>a</sup> | (7)<br>zlepšující<br>hospodářský<br>výsledek | (8)<br>do zdrojů<br>k rozdělení | (9)<br>ostatní<br>účelové | (10)<br>FENZO <sup>b</sup> |
| 1970         | 45,2                    | 14,3                        | 30,9                                            | 14,4                                         | 2,6                             | 9,4                       | 4,5                        |
| 1971         | 53,2                    | 20,3                        | 32,9                                            | 15,4                                         | 7,7                             | 5,9                       | 3,8                        |
| 1972         | 48,7                    | 21,5                        | 27,2                                            | 13,7                                         | 7,1                             | 3,6                       | 2,9                        |
| 1973         | 55,8                    | 22,4                        | 33,4                                            | 15,7                                         | 6,8                             | 3,2                       | 7,7                        |
| 1974         | 64,3                    | 24,1                        | 40,2                                            | 16,4                                         | 8,0                             | 3,1                       | 12,6                       |
| 1975         | 75,3                    | 28,1                        | 47,2                                            | 25,4                                         | 7,5                             | 3,4                       | 10,9                       |
| 1975<br>1970 | 166,6                   | 196,7                       | 152,7                                           | 176,3                                        | 287,0                           | 36,5                      | 259,3                      |
| 1976         | 88,6                    | 29,5                        | 59,1                                            | 28,2                                         | 6,8                             | 4,0                       | 20,1                       |
| 1977         | 69,6                    | 32,4                        | 37,2                                            | 17,3                                         | 7,7                             | 3,4                       | 8,8                        |
| 1978         | 64,8                    | 26,9                        | 37,9                                            | 16,8                                         | 8,7                             | 4,0                       | 8,4                        |
| 1979         | 62,9                    | 27,7                        | 35,2                                            | 17,7                                         | 8,6                             | 3,8                       | 5,1                        |
| 1980         | 63,1                    | 25,4                        | 37,7                                            | 24,5                                         | 8,4                             | 3,9                       | 0,9                        |
| 1980<br>1975 | 83,7                    | 90,3                        | 79,7                                            | 96,3                                         | 112,4                           | 112,9                     | —                          |
| 1981<br>1982 | 64,8<br>54,7            | 14,8<br>15,7                | 49,9<br>39,0                                    | 32,1<br>19,8                                 | 10,2<br>10,0                    | 1,7<br>1,8                | 6,0<br>7,4                 |

Key:

1. Year
2. Total subsidies
3. Of which
4. Of which: noninvestment subsidies
5. Total investment subsidies
6. Total noninvestment subsidies<sup>a</sup>
7. For improving managerial performance
8. For resources designated for distribution
9. Other targeted
10. FENZO<sup>b</sup>

a) Including subsidies for financial and economic mechanisms for foreign trade

b) For the years 1970-1975 this figure is the final FENZO deficit; beginning in 1976, FENZO are listed in terms of turnover, i.e., as transfers and subsidies

These major types of ties and relationships may be illustrated by developments since 1970. For this purpose we will divide this period into the years 1970-1976, and the period 1977-present. We are basing our comments on the fact of an exceptionally strong influence of price changes and of several methodological modifications on financial resources and requirements, and therefore on transfers to the budget and subsidies from the budget. The year 1977 represented something of a watershed in this regard, because prior to this time economic development had taken place under relatively stable internal economic conditions. Changes in external economic conditions however, made it necessary, among other things, to introduce a price policy, and the shift of price levels and price relationships between the prices of finished goods and of raw materials meant, basically, that the conditions had changed under which financial relationships were conducted.

The pace of price developments is illustrated by Table 9 (price indexes based on 1967=100, with data from statistical yearbooks).

From this it is evident that the most significant price changes took place as follows:

Table 9

|                                     | <u>1976</u> | <u>1977</u> | <u>1979</u> | <u>1980</u> | <u>1981</u> | <u>1982</u> |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Industrial wholesale prices         | 106.5       | 111.9       | 112.5       | 114.5       | 120.1       | 129.2       |
| Of which:                           |             |             |             |             |             |             |
| --fuel, coal and crude oil products | 97.7        | 122.9       | 126.5       | 128.3       | 178.3       | 180.8       |
| --heat and electricity generation   | 103.5       | 141.1       | 147.3       | 155.5       | 176.3       | 178.8       |
| --ferrous metallurgy                | 101.3       | 106.5       | 106.5       | 106.5       | 106.5       | 125.8       |
| --machine building                  | 107.2       | 95.0        | 95.4        | 96.1        | 97.0        | 102.0       |
| Construction prices                 | 106.8       | 105.4       | 105.5       | 105.5       | 105.5       | 114.9       |
| Agricultural procurement prices     | 112.0       | 115.1       | 116.2       | 126.6       | 128.1       | 139.8       |
| Retail prices of goods and services | 108.9       | 110.3       | 116.5       | 119.9       | 120.9       | --          |
| fob foreign trade prices:           |             |             |             |             |             |             |
| --imports                           | 187.0       | 202.5       | 239.8       | 267.9       | 293.1       | 295.2       |
| --exports                           | 172.1       | 173.1       | 195.7       | 224.9       | 230.7       | 230.5       |

--in industry in 1977, 1981, and 1982,

--in agriculture in 1980 and 1982,

--in the domestic market for goods and services in 1979 with a carryover to 1980,

--in foreign trade every year.

The fundamental trends in economic development, including price influences and methodological changes, have been evident in financial development, especially in the development of certain components of financial resources and in subsidies from the budget, as follows:

## Period 1970-1976

a) The relatively high rate of economic development during the Fifth 5-Year Plan was accompanied by an increase in the extent of investment (until 1978), while at the same time, beginning in 1973, an increasingly strong negative influence from price developments on foreign markets began to have an impact on internal economic relations. The concurrent influence of these factors led in the economy to an increase in tension and, in the financial area, to a rapid growth of investment and noninvestment subsidies which exceeded the growth rate of overall budgetary expenditures.

b) From a methodological point of view, this financial development was influenced by the principles of planned management which had been in force since 1972, and especially the adjusted rates for transfers from profits, a reduction in transfers from depreciation to the state budget, a strengthened role for VHLJ's in financial management, etc., which caused changes in certain items of resources and requirements, as outlined in Table 10.

Table 10 (figures in billions of korunas)

|                                                                                    | <u>1971</u> | <u>1972</u> | <u>Difference</u> |
|------------------------------------------------------------------------------------|-------------|-------------|-------------------|
| Profit                                                                             | 84.9        | 85.4        | 0.5               |
| Of which: transfer to state budget                                                 | 61.7        | 64.4        | 2.7               |
| Depreciation                                                                       | 27.6        | 30.5        | 2.9               |
| Of which: transfer to state budget                                                 | 9.4         | 3.2         | -6.2              |
| Subsidies from state budget for investment                                         | 20.3        | 21.5        | 1.2               |
| Total noninvestment subsidies from state budget                                    | 32.9        | 27.2        | -5.7              |
| Subsidies from redistribution of profits and depreciation in the enterprise sphere | 11.8        | 23.4        | 11.6              |

The substantial reduction in transfers of depreciation (in 1972 this was mainly due to transfers of depreciation to the budgets of national committees) was not reflected in an absolute reduction of subsidies for investment, but only in a moderation of their growth and a reduction in their share of the financing of investment, which is connected with the significant rate of investment (financial requirements for economic organization investment increased by 18.7 percent in 1972). The reduction in noninvestment subsidies is connected to the termination of remnants of the management system stemming from gross income. Overall, modifications in the management system that took effect in 1972 led to a limitation of the redistribution relationships through the state budget, while increasing opportunities of this kind in the enterprise sphere. In contrast to the following period, changes in the redistribution relationships were influenced (in addition to material changes) by primarily methodological influences.

## Period 1977-1982

a) In 1977 there was a substantial decline in noninvestment subsidies from the state budget, and in 1978 a decline in investment subsidies, which was to a critical extent related to the restructuring of wholesale prices and in the second instance modifications in the system of enterprise transfers to the

state budget. This was not, however, a matter of the movement of subsidies alone, because at the same time price developments meant a decline in certain financial resources, and therefore, also of transfers to the state budget, as Table 11 indicates.

Under normal conditions, 1977 saw a reduction in profits of 30.6 percent in comparison with 1976, a decline which was due to a number of factors--real economic growth, but above all the modification in wholesale prices, which meant that a portion of the price changes were at the expense of profitability particularly in the processing sectors (in economic organizations, profitability declined from 16.5 percent in 1976 to 11.7 percent in 1977, with industry declining from 17.7 percent to 11.0 percent and machine building from 23.4 percent to 13.4 percent). A reduction in the social security contribution rate, on the other hand, acted to moderate the decline in profitability.

Table 11 (figures in billions of korunas)

|                                                                    | 1976  | 1977 | 1978 | Difference |         |
|--------------------------------------------------------------------|-------|------|------|------------|---------|
|                                                                    |       |      |      | 1977/76    | 1978/77 |
| Economic organization profit                                       | 123.3 | 85.6 | 94.2 | -37.7      | 8.6     |
| Of which: transfer to state budget                                 | 98.5  | 67.4 | 68.3 | -31.1      | 0.9     |
| Economic organization depreciation                                 | 42.7  | 41.1 | 44.0 | - 1.6      | 2.9     |
| Of which: transfers to state budget                                | 3.0   | 3.5  | 3.7  | 0.5        | 0.2     |
| Financial requirement for economic organization investment         | 102.8 | 93.8 | 98.0 | - 9.0      | 4.2     |
| Of which: financed by subsidies from state budget                  | 29.5  | 32.4 | 26.9 | 2.9        | -5.5    |
| Noninvestment subsidies from state budget--total (excluding FENZO) | 39.0  | 28.4 | 29.5 | -10.6      | 1.1     |
| Of which: subsidies improving managerial performance               | 28.2  | 17.3 | 16.8 | -10.9      | -0.5    |

Bringing value relationships in line with reality made it possible, in 1977, to reduce noninvestment subsidies by about Kcs 11 billion, or by about 27.2 percent, but this had basically no influence on subsidies. A reduction in these subsidies is usually dependent on (everything else being equal) a reduction in the transfer load on profits. This was one of the objectives of the alteration of the system of transfers to the state budget in 1978. Calculations for 1977 translated to a relative reduction in transfers from profits of Kcs 5.8 billion; this was roughly the amount by which the disposable profit of enterprises was increased, making it possible to reduce investment subsidies.

b) The restructuring of wholesale prices in 1977 significantly influenced the final relationship of economic mechanisms of foreign trade to the state budget in the sense that in deficit situations the subsidy relationships changed to a transfer relationship. See Table 12.

Table 12 (figures in billions of korunas)

|                 | <u>1976</u>       | <u>1977</u> | <u>Difference</u> |
|-----------------|-------------------|-------------|-------------------|
| FENZO transfers | 3.7               | 9.2         | 5.5               |
| FENZO subsidies | 20.1 <sup>a</sup> | 8.8         | -11.3             |
| Deficit         | -16.4             | 0.4         | 16.8              |

a) Including subsidies for centrally managed prices

This change is still greater than in the case of other noninvestment subsidies. This is related primarily to the fact that the wholesale prices of important items of raw materials and materials were set above the level of import acquisition costs in 1977, so that the original negative difference in these prices turned into a positive. In other words, subsidy changed into transfer. In terms of the retention of this approach to the formation of wholesale prices for raw materials, fuel and energy during the Seventh 5-Year Plan, it may be stated that the final relationship between the economic mechanisms of foreign trade and the state budget continues to be a positive one. It is generally possible, then to formulate the relationship between the deteriorating exchange relations of imports and exports due to increasing prices for imports and wholesale prices on the one hand and transfers or subsidies related to economic mechanism of foreign trade on the other as follows:

—in the event that the wholesale prices of raw materials, fuel and energy remain at their current levels, i.e., that they remain behind the evolving prices of imports, there will be a tendency for subsidies from the state budget to increase (this was the case up until 1976, when subsidies to the financial and economic mechanisms of foreign trade reached their highest level);

--setting the above-mentioned wholesale prices at the level of the acquisition cost of imports that will be obtained in 2 or 3 years will make it possible for the final balance of the economic mechanisms of foreign trade to be positive (a transfer), at the same time that a trend of a decline in this final transfer in connection with the speed of the price increases of imports is established. (This trend must be understood as a development founded on the technique for establishing wholesale prices: in practice a number of additional influences come into play on the side of both imports and exports. In addition, the evolution of exchange relations with regard to the SZ and NSZ has its own peculiarities.)

From an assessment viewpoint there are for practical purposes no differences in the influence on prices of these two approaches on redistribution relations (increasing subsidies or decreasing transfers).

c) The one-time restructuring of wholesale prices implemented in two stages in 1981 and 1982 and the introduction of the Set of Measures constituted a serious intervention into these redistribution relationships. The modifications of wholesale prices was evident:

--in 1981 when prices were increased for fuel and energy resources, when there was a significant increase in the requirements for noninvestment subsidies in the related sectors which became necessary in the interest of assuring khozraschot management conditions. Subsidies to improve managerial performance

increased from Kcs 24.5 billion in 1980 to Kcs 32.1 billion in 1981, an increase which reflects both price changes and material influences;

--in 1982, when modifications were carried out in other sectors, there was a decline in these subsidies in the amount of Kcs 19.8 billion;

--just as during the price restructuring of 1977, there was a significant improvement in the balance of the economic mechanisms of foreign trade in relation to the state budget (while improving the overall positive balance from Kcs 6.5 billion in 1980 to Kcs 11.8 billion in 1981, transfers increased by Kcs 10.4 billion and subsidies by 5.1 billion).

Changes in this area, however, cannot be viewed in isolation or solely in conjunction with movements in wholesale prices. The implementation of the Set of Measures brought a number of changes, which have been reflected as well in the formation and use of financial resources in the area of redistribution relationships. The changes were primarily the following:

--export profits have been excluded from profits; premiums paid out of the compensation fund, i.e., from profit sharing, have been shifted to costs. These methodological changes have meant a decline in profits (when assessing the change in the plan the reduction in profits amounted to Kcs 6.7 billion), and therefore of transfers to the state budget. This was one of the factors which made possible an increase in transfers of the economic mechanisms of foreign trade.

--transfers from profits continue to embody one of the critical objectives of the Set of Measures, namely the increased role of profits in financing planned requirements. This objective was implemented in 1981 and 1982 in the form of reduced transfers (transfer rates were finally modified in 1983) with a simultaneous reduction in investment subsidies. According to the original plan these reductions amounted to Kcs 5.5 billion in 1981 and Kcs 3.2 billion in 1982. In addition to a reduction in investment expenditures which are influenced also by reduced prices, this was reflected in a substantial decline in investment subsidies from Kcs 25.4 billion in 1980 to Kcs 14.8 billion in 1982. Even though upcoming years are slated to see a substantial restriction in the scope of reductions in transfers that are offered, there is here the general question of the desirability or lack of same in the use of this mechanism.

d) In recent years certain methodological measures have been instituted which have likewise led to a reduction in noninvestment subsidies. An example that may be cited is the termination of subsidies for the sectoral technical development fund and limits on resources to cover invoices during work on research and development assignments of the state plan beginning in 1981 and their replacement with budgeted expenditures within the framework of a newly created budgetary category: "research and development."

e) The link between price movements and redistribution relations is not evident in an obvious form, such as a change in the volume of noninvestment subsidies. In addition to this it is essential to understand that the very movement of wholesale prices and the movement of prices in other contexts also influence the yield from sales taxes and, in this same group, the so-called reverse sales tax. Even though the source of the coverage of the price differential between the wholesale and retail prices is, in this case, the yield from sales taxes, which are reduced because of this, this may be considered the equivalent of a subsidy offered in the form of a reduction in transfers. For this reason, conclusions from analyses of the desirability of increasing or reducing capital redistribution through the state budget should also take into consideration the development of the negative sales tax, the volume of which is growing rapidly, as indicated by the overview in Table 13.

Table 13 (all figures in billions of korunas)

|                                           | 1975 | 1980 | 1982 |
|-------------------------------------------|------|------|------|
| Total subsidies                           | 75.3 | 63.1 | 54.7 |
| Composed of: investment                   | 28.1 | 25.4 | 15.7 |
| noninvestment                             | 47.2 | 37.7 | 39.0 |
| Negative sales tax                        | 4.2  | 7.3  | 15.6 |
| Composed of: food                         | 2.0  | 4.8  | 10.9 |
| industrial goods                          | 2.2  | 2.5  | 4.7  |
| Total of subsidies and negative sales tax | 79.5 | 70.4 | 70.3 |
| Of which: noninvestment subsidies         |      |      |      |
| + negative sales tax                      | 51.4 | 45.0 | 54.6 |

#### Possibilities for Terminating, or Limiting Subsidies From the State Budget

As the preceding analysis indicated, during the Sixth 5-Year Plan a process was initiated for the restriction of redistribution relationships in the state budget which is continuing at the present time. This is not an isolated process. It is programmatically linked with the strengthening of khozraschot in the production sphere and with an increase in its share in the financing of planned requirements while implementing the merit principle in all areas of material incentives.

This analysis has, basically, confirmed the close connection between limiting the amount of investment subsidies and modifications in the system of transfers to the state budget, and of the interrelationship between changes in domestic prices and the level of noninvestment subsidies, even though it is clear that actual economic development and its conditions exerted a substantial influence on the development of transfers and subsidies. These factors will exert an influence in redistribution relations even in the remaining years of the Seventh 5-Year Plan. At the same time it is necessary to base decisions on the fact that a legally valid modification of the system of transfers to the state budget was conducted in 1983 and that in the near future these transfers should probably not be changed.

Investment subsidies in 1982 and 1983 reached their lowest levels in the entire period since 1970 and are presently being offered only on a very restricted basis for projects of particular importance for the development of the entire economy (in the fuel and energy sectors, transportation and in certain sectors of the spheres managed by the national governments). Possibilities for the potential further reduction in investment subsidies by reducing transfers from profits have been for practical purposes exhausted (in the federal sphere a reduction was to be granted in 1983 only to the Federal Ministry of Metallurgy and Heavy Engineering in the amount of Kcs 170 million).

Taking into account the projected development of investments to 1985 and their sectoral structure, it may be stated that the volume of investment subsidies has probably reached a level below which it will not be significantly reduced (in terms of the budget, projections were made for subsidies of this kind in the amount of Kcs 12.6 billion in 1984 and Kcs 11.5 billion in 1985). A problem specific to the 1983-1985 period is the appearance of excess in-house resources in the enterprise sphere for the financing of investments, given the projected volume of investment projects and assuming that current levels of credit used to finance them persist. This problem has been resolved for the time being by increasing depreciation transfers to the state budget. The feasibility of this and other potential solutions to this problem are being evaluated.

Completely different conditions and problems exist in the area of noninvestment subsidies. Their evolution in the 1980-1982 period is shown in Table 14 (the overall volume includes noninvestment subsidies granted to unified agricultural cooperatives [JZO] and privately operating farmers [JHR], but do not include subsidies for the economic mechanisms of foreign trade).

As the economic structure of noninvestment subsidies implies, these subsidies are connected to a decisive extent with prices and their levels (wholesale, procurement, retail). The share of subsidies for improving managerial performance and subsidies to resources for distribution (the majority of these subsidies constitute subsidies for planned losses and to cover minimum allocations to funds) fluctuates in the range of 90-97 percent. From a sectoral viewpoint, more than two-thirds of subsidies are granted to the agro-food complex. Noninvestment subsidies are granted for 90-100 types of projects.

The future development of noninvestment subsidies will depend mainly on the specific conduct of price policy. In this regard, one of the critical decisions will be whether to progress further in the process of transferring the influence of foreign price developments, and especially the prices of fuels, energy, raw materials and other materials, to domestic wholesale prices, and from there to retail prices. It would obviously be unrealistic to predict that we will be able to eliminate subsidies by increasing the effectiveness of activities for which they are granted. This should not, however, restrict efforts so that greater effectiveness and managerial sophistication would make subsidies less necessary or at least restrict their growth.

Table 14

|                                                       | <u>1980</u> | <u>1981</u> | <u>1982</u> |
|-------------------------------------------------------|-------------|-------------|-------------|
| Total volume of noninvestment subsidies               | 42.5        | 48.8        | 38.1        |
| Of which:                                             |             |             |             |
| centrally managed economic organizations              | 30.0        | 36.2        | 23.2        |
| economic organizations managed by national committees | 6.7         | 6.8         | 7.0         |
| JZD and JHR                                           | 5.8         | 5.8         | 7.9         |
| Of the total:                                         |             |             |             |
| subsidies improving managerial performance            | 28.6        | 37.1        | 26.5        |
| subsidies to resources for distribution               | 9.9         | 10.2        | 9.8         |
| other targeted subsidies                              | 4.0         | 1.5         | 1.8         |
| Of the total:                                         |             |             |             |
| industry and construction                             | 4.7         | 9.7         | 4.4         |
| agro-food complex                                     | 29.2        | 30.7        | 25.6        |
| other sectors                                         | 8.6         | 8.4         | 8.1         |

In spite of the fact that the majority of noninvestment subsidies are granted to alleviate the impact of prices, it is obvious that restricting subsidies is not the highest priority among the motives for adopting price measures. A change in the level of subsidies is, rather, a "byproduct" of price measures, a situation which, in fact, weakens the impact of financial policy in this area and lays the foundation there for the automatic granting of subsidies, that is economic certainty for their recipient. This may be important in and of itself, but it is not necessarily the best resolution of a given problem in terms of the economy. Therefore, it must be verified as a matter of course whether the reasons that led to the granting of a subsidy from the state budget still exist, i.e., whether with regard to changing material and economic conditions it might not be better to move on to price measures.

It is our opinion that the current trend towards restricting the overall level of noninvestment subsidies from the state budget should continue, within the framework of the overall effort to make value relationships more realistic. For this reason particular attention should be devoted to all cases which lead to an expansion of the potential projects or to an increase in the volume of subsidies.

Recently there has been a tendency to use subsidy policy as a means of supporting the introduction of advanced technical concepts which have public significance but which are, because of production costs and therefore price, inappropriate for consumers. In particular, this is a matter of the introduction of robots, the utilization of solar energy, the institution of efficiency measures to conserve fuels and power. This places greater demands on state budget resources in a situation when the existence of noninvestment subsidies is frequently criticized and attempts are being made to curtail them. The effectiveness of this subsidy category should, however, be judged according

to broader economic, not only financial criteria. On the other hand, it is essential to resist attempts to seek solutions to certain economic problems primarily by plugging in to the resources of the state budget. Subsidies should be, in the above cases, clearly only a temporary solution until prices come more into line. At the same time, it would make sense to create the opportunity for the granting of this kind of noninvestment subsidy by terminating or restricting other types of subsidies, so as not to get into a situation of the further expansion of redistribution relations.

### Conclusions

This analysis of redistribution relations in the 1970-1982 period has shown that:

--the overall scope of capital redistribution through the state budget and in relation to the enterprise sphere is significant, and is closely connected with the price level in specific, relatively independent price groupings;

--a fundamental trend of the limitation of redistribution processes related to the enterprise sphere as a whole is being established. This has come about primarily as a result of measures in the area of prices focused on a more objective level of prices in terms of socially necessary costs, but also as a result of modifications of transfers to the state budget and financial management regulations designed to strengthen khozraschot principles of management, and as a result certain other measures of a methodological type.

At the same time it is essential to take into consideration that these conclusions have been formulated from the viewpoint of the state budget. They therefore need not completely agree with the conclusions of an analysis of redistribution relations which has been conducted from the viewpoint of a specific sector, VHI or enterprise. Because redistribution relations have their own organizational and jurisdictional aspects, the requirement for restricting economically unjustified capital redistribution must be understood as an objective related not only to the state budget, but also to additional elements of management which redistribute capital in the enterprise sphere.

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PLANNING COMMISSION ON FINANCIAL PLAN FULFILLMENT

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[Article by Eng Jindrich Weiss and Eng Vaclav Srba, State Planning Commission:  
"Concerning the Fulfillment of the Financial Plan"]

[Text] The incessantly increasing pressure on the growth of efficiency in the process of reproduction affects with particular intensity the financial aspect of the state plan controlling the sector of outputs, costs and development of production assets. The main directives for socioeconomic development in 1981-1985, approved by the 16th CPCZ Congress, stipulate, among other things, that all types of fuels, energy, materials and raw materials as well as the existing fixed assets and work forces be employed in a better, more rational manner. They presume that the measures for improving the planned management system will prove effective in achieving this objective.

Primarily two newly introduced indicators--adjusted value added and return on production assets--and their linkage with wage control hold a key position in the financial sector of the state plan. In our opinion, it is useful to assess their importance and some aspects of their effect in the middle of the 5-year plan.

It is understandable that adjusted value added is not the only factor that positively affects the generally greater conservation of material requirements which will be discussed here. This indicator is part of a whole system and of an approach to economic management which no longer compels organizations to opt for the achievement of dynamism in volumes of products, which is often done precisely by waste of materials. Next to several measures of technical and economic nature, such as actions included in state goal-oriented programs O2 and O3, this area is affected by conservation of metals, fuels and energy, balancing of basic materials and raw materials, limitation of absolute volumes in the consumption of individual types of fuels and energy compensation for the costs stemming from increased prices of certain types of fuels, energy and transportation, direct preferential wage treatment for conservation of restricted fuels and energy, and so on. The implementation of the counterplanning method is gradually beginning to play a certain role in this area.

## Material Costs

represent the most closely observed part of the plan for accumulation of financial resources and its implementation. The reasons are self-evident because material costs:

--have a predominantly material substance. Their actual conservation leads to lower demands for raw materials and energy that are produced under increasingly difficult natural conditions or that are imported;

--represent a desirable factor encouraging the growth of adjusted value added and profits. Thus, they differ, for example, from outputs, where we must always consider the usefulness of the products, their parameters and their appropriate potential place in marketing trends, and financial costs which express mostly the processes of redistribution controlled by given economic regulations;

--in the current management system are directly linked with wage control. Their savings constitute a direct claim on the accumulation of wages payable.

The development of material costs in recent years may be assessed as positive. As a rule, this concerns an area affected most markedly by the system of management and by new mechanisms of material incentives. On principle, this assessment is accurate; it suffices to mention that the average semiannual reduction of material costs in the years of the Sixth 5-Year Plan amounted to Kcs 3.2 billion as compared with Kcs 10.2 billion in 1982 and to Kcs 9.2 billion in 1982 (the above-mentioned values were calculated without the effect of compensation for costs, which represented an additional Kcs 1.1 billion in 1981 and Kcs 1.5 billion in 1982).

The distribution of relative savings of material costs among individual items appears favorable (savings -, overrun +, in Kcs billion):

|                                            | 1981  | 1982  |
|--------------------------------------------|-------|-------|
| Consumption of materials, fuels and energy | -11.5 | -12.0 |
| Outside transportation costs               | - 0.6 | - 1.8 |
| Outside repairs and maintenance            | + 0.5 | + 0.8 |
| Subjects of gradual consumption (DKP)      | 0.0   | + 1.4 |
| Communication services                     | + 0.3 | + 0.2 |
| Travel and rental costs                    | - 0.6 | 0.0   |
| Other                                      | + 1.7 | + 2.2 |
| Total material costs                       | -10.2 | - 9.2 |

The analysis according to individual items demonstrates that a major part of the savings was achieved by the conservation of materials, fuels and energy (of which energy conservation amounted to Kcs 1.8 billion in 1981 and fuels and energy conservation to Kcs 2.1 billion in 1982). The relative growth of repair and maintenance costs is also positive; in the totality of the ministries it confirms that an increase in adjusted value added is not achieved by neglecting the maintenance of fixed assets.

The development of material consumption was improved in all main branches of national economy as documented by the following survey of average semi-annual reduction of the share of material costs in outputs (in percent):

|                                            | Sixth<br>5-Year<br>Plan<br>Actual | Half of<br>Seventh<br>5-Year Plan<br>Actual | of which:<br>first half of<br>1983 |
|--------------------------------------------|-----------------------------------|---------------------------------------------|------------------------------------|
| CSSR                                       | -0.53                             | -1.24                                       | -0.95                              |
| Industry                                   | -0.68                             | -1.26                                       | -1.22                              |
| Construction                               | -0.10                             | -0.78                                       | -0.18                              |
| Agriculture                                | +0.51                             | -1.48                                       | -1.23                              |
| Branches managed by national<br>committees | -0.28                             | -1.30                                       | -0.43                              |
| Other                                      | -0.05                             | -1.01                                       | -0.59                              |

The last column in the table demonstrates that the reduction of material consumption has slowed down. This is a startling fact, particularly in conjunction with the very auspicious weather conditions; it may indicate that the readily mobilized untapped assets are gradually becoming exhausted. This development is the least distinctive in the industry; however, as compared with the reduction in 1982 (1.34 percent), even here the drop represents a considerable amount (Kcs 0.6 billion).

A reversal which is occasionally mentioned in conjunction with the assessment of the development in this area began in 1981 due to a change in the system of management, especially the introduction of the indicator of adjusted value added and its linkage with wage control. We do not regard such an evaluation as completely realistic. No doubt, the introduction of adjusted value added and, above all, its application in wage control exerted in the past a distinctly positive influence, which they do to this day. Nevertheless, this did not signal a reversal but rather an intensification in the system of management in this area. Adjusted value added represents a modification of the share of material costs in outputs; its importance was systematically enhanced in the system of management during the Sixth 5-Year Plan and this process included interrelations with the wage control system applied during that period. It is not without interest to review the development in individual years (reduction of the share of material costs in outputs in percent):

|                |      |                     |      |
|----------------|------|---------------------|------|
| 1976 actual    | 0.22 | 1980 actual         | 0.60 |
| 1977 actual    | 0.28 | 1981 actual         | 1.37 |
| 1978 actual    | 0.64 | 1982 actual         | 1.25 |
| 1979 actual    | 0.89 | 1983 first 6 months | 0.95 |
| 1980 projected | 0.93 |                     |      |

The chronological sequence has been supplemented for illustration by the projected fulfillment of the plan in 1980, which then eliminated the completely unusual development in the last quarter of this year, when

reserves were obviously being accumulated for the transition to a new arrangement of material incentives. Those reserves, among other things, also serve as partial resources for the achievements reported in 1981 and 1982.

Material savings should be the result of the goal-oriented programs in the management sector and, above all, of innovation programs both for the development of new products and for improving or adapting production technologies. Naturally, such programs are under way; however, they cannot be assessed by total reduction of material consumption which is affected by a great many additional factors.

Among them were, first of all, the changes in the structure of production that beneficially affected the volume of material costs in the amount of Kcs 1.3 billion in 1981 and as much as Kcs 1.8 billion in 1982. The reason was that ministries with a below-average share of material costs demonstrated a faster rate than ministries with above-average material costs.

Thus, for instance, among the federally managed ministries with an average index of outputs equal to 102.9 percent and the share of material costs equal to 58.67 percent, outputs in 1981 rose most of all in the electrical engineering industry (106.7 percent), where the share was below average (55.08 percent), while the outputs in the Ministry of Metallurgy and Heavy Engineering, with an above-average share of material costs (69.81 percent), increased with only 101.7 percent index. A similar tendency was evident from the comparison of the development for all federal and republic ministries; the federal ministries in their totality had a lower share of material costs (58.67 percent) than the whole of the CSSR (63.16 percent); their growth of outputs was 2.9 percent with an overall rate in the economy equal to 1.9 percent. The index of outputs achieved in 1982 for the whole of the CSSR amounted to a total of 100.6 percent and the average share of material costs to 64.33 percent; outputs increased most in federal ministries (101.8 percent) where the share was lower, i.e., 60.40 percent, while in the CSR and SSR, where the shares were above average (66.85 percent and 68.41 percent, respectively), the volume of outputs declined (99.8 percent and 99.6 percent, respectively). Similar effects were evident in 1982 between individual ministries in the CSR and the SSR as well as between federal ministries.

The same trend was also evident within the ministries due to different rates of outputs in individual branches or VHJ's [economic production units] with uneven levels of costs. Thus, for example, the favorable effect in the Ministry of Metallurgy and Heavy Engineering--numerically expressed as Kcs 280 million in 1981 and Kcs 150 million in 1982--stemmed from the different rate of the branch of metallurgy and heavy engineering; the beneficial structural effect within the branch of metallurgy amounted to Kcs 70 million. Similarly, in the Ministry of Agriculture and Food the figure quoted in this context is Kcs 180 million, in the Ministry of Industry of the SSR Kcs 80 million, etc.

Some other effects of the line of production within individual VHJ's and enterprises determine the reduction of the share of material costs. In view of the restricted material resources from imports and of the shortcomings in supplier-consumer relations, in some cases it was necessary to include products with lower material requirements and to permit substitution for certain materials, which occasionally also degrades the quality of the products. On the contrary, in more auspicious instances the switch to products with lower material consumption may be in response to consumers' demands and represent a desirable innovation effort.

When speaking about the mobilization of readily accessible untapped assets in the reduction of material demands, it is noted that the production which was occasionally used for easier achievement of volume indicators would be restricted. Of course, in this case the indicator of the share of material costs in outputs is rather spuriously reduced. The cancellation of coproduction (whether it is more or less speculative or real coproduction, replaced by internal production) eliminates repeated inclusions of the material component by several organizations; nevertheless, that does not reduce material consumption in national economy. It is estimated that the cooperation in engineering ministries, where it was most relevant, was reduced in 1981 by Kcs 1.1 billion. The savings, particularly in materials handling and costs of transportation, may be regarded as an auspicious symptom of this tendency.

Next to economic mechanisms, the achievements in the fulfillment of state goal-oriented programs 02 and 03 and mandatory balancing or, as the case may be, directly restricted consumption of selected fuels, energy and materials have without any doubt positively affected the reduction of material consumption.

Data on the declining consumption of metals in engineering ministries may be quoted as an example:

|                                                            | Consumption in<br>thousand tons |         | Specific<br>consumption |       |
|------------------------------------------------------------|---------------------------------|---------|-------------------------|-------|
|                                                            | 1981                            | 1982    | 1981                    | 1982  |
| Ferrous metals                                             |                                 |         |                         |       |
| Federal Ministry of<br>Metallurgy and Heavy<br>Engineering | 6,622.4                         | 6,684.7 | 39.04                   | 39.98 |
| Federal Ministry of<br>General Engineering                 | 2,171.9                         | 2,131.9 | 18.14                   | 17.22 |
| Federal Ministry of<br>Electrotechnical Industry           | 293.7                           | 284.5   | 8.57                    | 7.85  |

[table continued from previous page]

|                                                      | 1981  | 1982  | 1981 | 1982 |
|------------------------------------------------------|-------|-------|------|------|
| Nonferrous metals                                    |       |       |      |      |
| Federal Ministry of Metallurgy and Heavy Engineering | 327.7 | 299.8 | 1.93 | 1.75 |
| Federal Ministry of General Engineering              | 130.7 | 129.2 | 1.09 | 1.04 |
| Federal Ministry of Electrotechnical Industry        | 125.4 | 115.4 | 3.64 | 3.19 |

A semiannual absolute growth of consumption was evident in ferrous metals in the Federal Ministry of Metallurgy and Heavy Engineering alone; however, even there their specific consumption had been reduced. Similar limits on energy, motor oil and gasoline for automobiles are being reduced year after year. As compared with 1981, the consumption of motor oil and gasoline for automobiles was reduced in 1982 by a total of Kcs 2 billion in comparable prices--such savings alone earned organizations almost Kcs 300 million in items addable to the usable volume of wages payable.

The relative decline of costs favorably affects price-related measures, such as preferential pricing of technically advanced goods, products of top quality, fashion and luxury goods. These amounts are steadily rising--from Kcs 2.9 billion in 1980 to Kcs 3.5 billion in 1981 and to Kcs 4 billion in 1982.

#### Adjusted Value Added

develops in dependence on outputs and material costs and its implementation is affected by financial penalties. We may note that, as compared with the preceding 5-year plan, the development of material costs in the middle of this 5-year plan cancelled to some extent the lower rate of outputs, and thus the rate of adjusted value added has declined less conspicuously and is moving ahead of the target for the 5-year plan, as demonstrated by the following survey compiled again according to the main branches of national economy (semiannual rate of adjusted value added in percent):

|              | Sixth<br>5-Year<br>Plan<br>Actual | Seventh<br>5-Year<br>Plan<br>Planned | Half of<br>Seventh<br>5-Year<br>Plan | of which:<br>first half<br>of 1983 |
|--------------|-----------------------------------|--------------------------------------|--------------------------------------|------------------------------------|
| CSSR         | 5.81                              | 3.74                                 | 4.06                                 | 5.14                               |
| Industry     | 6.16                              | 4.28                                 | 4.90                                 | 6.00                               |
| Construction | 5.56                              | 1.60                                 | 0.12                                 | 4.43                               |

[table continued from previous page]

|                                            |      |      |      |       |
|--------------------------------------------|------|------|------|-------|
| Agriculture                                | 3.37 | 2.34 | 3.71 | 10.61 |
| Branches managed by<br>national committees | 4.64 | 3.22 | 3.33 | 2.11  |
| Other                                      | 6.16 | 3.22 | 3.03 | 2.53  |

This trend is most significant in the industry where it may also be expected in the future because the dynamism of outputs is gradually being restored. With a certain delay caused by the almost 5-percent decline of outputs in 1982, it may be anticipated in construction and--depending on weather--in the agriculture as well.

In the years of the Sixth 5-Year Plan adjusted value added rose on the average by Kcs 18.6 billion annually because outputs increased by Kcs 15.1 billion and material costs were cut about Kcs 3.5 billion. Adjusted value added increased in 1981 and 1982 on the average by Kcs 15.8 billion; the share of material costs (including compensation on costs) was reduced by Kcs 11 billion and the outputs rose Kcs 4.7 billion.

Two problems in particular are usually mentioned in connection with the application of adjusted value added--the potential for their growth achieved by means of unsold products and the deviant developmental trends against the national income. Let us deal with these issues in greater detail.

1. The changes in the situation of unfinished products and finished goods, i.e., goods in production on the one hand and the finished but unsold products on the other hand, constitute a factor in adjusted value added. It is noted that this makes it possible to fulfill this indicator (including wage demands) in an undesirable manner, which in the sector of wage control means a step back even when compared with the system applied in the previous 5-year plan. The latter allegation is not entirely accurate. During the Sixth 5-Year Plan wages were controlled in relation to receipts; of course, practically every industrial ministry availed itself of the prerogative to stipulate another indicator, namely, the production of goods, which includes also a change in the inventory of finished goods. Thus, the change took place in unfinished production alone.

Incomplete components of outputs are included in adjusted value added in the evaluation according to production costs, i.e., without calculated profits, which in itself encourages cost-cutting.

During the Sixth 5-Year Plan the volume of unfinished and finished goods expanded on the average by Kcs 2.7 billion annually. With the introduction of adjusted value added in 1981 those inventories increased by only Kcs 1.3 billion. The increase of Kcs 2.7 billion planned for 1982 was exceeded and amounted to Kcs 3 billion. Our food industry contributed toward this development to a major extent with the amount of Kcs 1.4 billion because of a bumper harvest in our agriculture and because of an overrun in the

procurement of commodities which were accounted for at the end of the year as food products either in the process of production or already finished. Therefore, this was no speculation about the fulfillment of the indicators but rather a positive and socially desirable phenomenon.

Less favorable is the development of unsold components in construction production. Over the years of the Sixth 5-Year Plan those inventories rose on the average by Kcs 3.1 billion annually; although they were reduced by Kcs 1.4 billion in 1981, in 1982 they rose again by as much as Kcs 5.6 Kcs, while the plan projected an increase of no more than Kcs 1.3 billion. The situation in the construction industry is idiosyncratic and to resolve it, a whole complex of measures derived from a new regulation on invoicing is being gradually introduced.

It is assumed that beginning in 1984 a more effective penalty for undesirable inventory development in all branches will also affect the area of wage control, particularly in conjunction with credit penalties by the Czechoslovak State Bank.

2. The problem of the relation between adjusted value added and national income is relevant. If we regard the dynamism of national income as one of the basic data on national economic development, it is proper to ask why it fails to correspond with the dynamism of adjusted value added, and why the share of production consumption in the social product has not been reduced in proportion to the lower share of material costs in outputs.

In this context we may disregard the differences in:

--organization (national economic indicators include all of the national economy, financial indicators refer to state economic organizations alone);

--methodology (nonproduction programs and services of a nonmaterial type are excluded from national economic indicators); on the contrary, the volumes of production programs implemented outside the economic sphere are added to them;

--pricing (national economic indicators are converted to the 1977 price level, while financial indicators are expressed in wholesale prices of the last surveyed year).

The above-mentioned differences may render comparison more difficult, but they do not affect the dynamism to a considerable extent.

Of major importance is the fact that the sales tax is credited and the differential between the foreign and domestic prices is included in the social product, national income and consumption in production (unlike outputs, adjusted value added and material costs) and subsidies to receipts and costs are not added.

In its sum total assessment based on market prices, which is used to balance the national income, may evidently serve as a better basis for the evaluation of overall efficiency in the process of reproduction, however, only under the assumption that the effect of individual price levels may be assessed independently. On the other hand, it is obvious that this method of assessment may not be entirely appropriate for expressing adjusted value added in specific instances.

Let us demonstrate this statement by an example. A product calculated in wholesale price which amounts to approximately Kcs 30,000 is included in outputs, and after the deduction of material costs, also in adjusted value added. It enters the social product and, after the deduction of production costs, the national income at the market price, i.e., at about Kcs 60,000 in delivery to our domestic market and at about Kcs 20,000 in export (for instance, with differential indicator 0.70). If the manufacturer's outputs are also assessed by this method, a distinctly antiexport incentive would develop apparently in agreement with our social interests, because even the contribution to the accumulation of national income appears considerably higher in deliveries for our domestic market. The absurdity of such an approach is self-evident (we have disregarded the evident necessity to assess also the material inputs in foreign prices, and in some cases in retail prices as well).

Nonetheless, it is obvious that a firm barrier between foreign and domestic prices cannot motivate the enterprise sphere toward improving their relation. It is not only expedient but evidently necessary to project the effect of foreign prices into economic results. Next to gradual improvement of financial economic mechanisms of foreign trade, which follows this direction, dramatic progress has been made in the experiment of linking production with foreign trade. It was introduced in 1983 in selected VJH's and enterprises, and as of 1 January 1984 some of its principles were extended to the entire Ministry of General Engineering.

More complicated is the problem involving the sales tax, which impenetrably separates the wholesale and the retail prices. The variability of its items, reacting to an uneven development of individual wholesale prices, has led in some cases to illogical relations that cannot be justified by any economic or social objective. With relative stability of retail prices and a slow planned growth of nominal wages, it is extremely difficult to resolve these relations; however, these problems extend beyond the framework of this article.

We should like to point out another phenomenon necessarily proceeding from the analysis of the dynamism of national income and adjusted value added--namely, the lack of interest of the enterprise sphere in relations between wholesale and retail prices. The increase of the prices of inputs in the processing industry is the subject of balancing--no matter whether it is reflected in the price of its goods or whether there is a price compensation to the detriment of returns on production assets. If the wholesale price of products designated for our domestic market has changed,

the sales tax is correspondingly adjusted. Thus, at this initial point, while the plan is in the stage of drafting or review, the manufacturer does not have to react to anything (except to the stipulated compensation on costs). Of course, in marketing we are interested in such innovations that enable us to raise the price of the product while the material costs remain the same or are slowly increased. Nevertheless, it does not depend on the extent to which the value of the product in our domestic market may be improved by means of retail price and, similarly, it is not penalized if this upgrading is reversed. We still lack efficient mechanisms in this area, especially with regard to engineering consumer goods.

The dynamization of our national income obviously demands that the enterprise sphere be assessed more than ever before on the basis of its contribution to the creation of national income, which means that the results achieved in foreign trade and the earnings in our domestic market should gradually be projected into the indicators of material incentives.

#### Return on Production Costs

holds an interesting position among financial indicators; it is alternately lauded and condemned, strangely enough, by the same authors. Let us disregard such extreme approaches and take a sober look at its development and potential.

Let us begin with its development and its factors (in Kcs billion):

|                                        | 1980  | 1981    | 1982    | 1981/<br>1980 | 1982/<br>1981 |
|----------------------------------------|-------|---------|---------|---------------|---------------|
| Return on production assets in percent | 6.44  | 6.72    | 6.59    | 104.3         | 98.1          |
| Profit                                 | 64.3  | 71.6    | 74.5    | 111.4         | 104.0         |
| Production assets                      | 998.9 | 1,066.5 | 1,130.2 | 106.8         | 106.0         |
| Of which:                              |       |         |         |               |               |
| capital assets                         | 789.9 | 848.9   | 906.3   | 107.5         | 106.8         |
| inventories                            | 209.0 | 217.6   | 223.9   | 104.1         | 102.9         |

Unlike the previously reviewed indicators, this table does not present data for the 6 months of 1983 because of the low value of the information derived from returns on production costs in the course of the year.

In 1981, at a 101.8 percent rate of outputs and with a major reduction of costs amounting to 0.80 percent, profits in the industry and construction were up 11.4 percent. Even with a relatively steep increase in the average situation of production assets, especially of capital assets, this made possible a 0.28 point semiannual increase of returns on production assets. At a slower rate of outputs (101.0 percent) in 1982, the reduction

of overall costs was lower (0.27 percent) and profits were up 4 percent. Although the growth of inventories had slowed down, the intensive trend of capital assets affected by capital investment dating from the period of the Sixth 5-Year Plan reduced the returns on production assets.

The effect of capital assets continued to decline in 1982. The efficiency of capital assets calculated in relation to adjusted value added for industrial ministries demonstrates a 0.006-point (97.95 percent) reduction in 1982 as compared with the decline by 0.008 points (97.33 percent) in 1981. As compared with 1981, the efficiency of capital assets calculated in outputs declined to 95.01 percent in the industry in 1982, and to as much as 94.60 percent in both the industry and construction.

The development of inventories included in the indicator of returns on capital assets in 1982 was characterized on the one hand by the unfulfilled objectives of the plan and, on the other, by a more auspicious development than in the previous years (overfulfillment of the plan by Kcs 1.7 billion, the decline of the semiannual growth index from 104.1 percent in 1981 to 102.9 percent in 1982). The nonfulfillment of planned tasks reflected in particular the inadequate effort of the organizations to liquidate the stockpiles accumulated over the past years and, furthermore, certain marketing problems of a transient as well as lasting character. Although the returns on production assets had been successfully met in accordance with the plan, they did not prevent a negative development of production assets, which is quite natural because of the very structure of that indicator. The amount of the returns is affected by profits about 15 times more than production assets. As for the inventories, this relation may still be regarded as commensurate (internal production equal, for example, to 100, at a 10-percent return on costs, contributes to return on production assets about 50 percent more than a reduction of inventories by the same amount, i.e., 100); in relation to capital assets, however, these quantities cannot be compared. We proceed from the premise that vital investment programs are implemented over a period of 4 to 5 years; thus, they cannot be effectively influenced by any indicator of the annual plan, and in many instances even of the 5-year plan. In such a situation the planned level of returns on production assets is set with regard to the projected launching of operations in new facilities; as operative economic mechanism it may affect only less important and short-term programs as well as the phasing-out of capital assets. Of course, to achieve success in this direction, capital assets must affect returns on production assets more effectively.

It should be added that all these problems and some other issues that are not mentioned here had been known before the introduction of returns on production assets as the indicator determining the calculation of the incentive wage factor. In the system of management economists-practitioners always regarded returns on production assets as only partially improved indicator of profit; after all, that is not so negligible. Naturally, if some optimists see it as an effective instrument preventing the efficiency of capital assets from declining, they will be disappointed.

These considerations change nothing at all in the fact that in a long-range chronological series return on production assets is a very useful analytic indicator which holds an irreplaceable position in the system of efficiency indicators. We are of the opinion that the indicator of profit should continue to be applied in the system of management during the Eighth 5-Year Plan, either directly or in some modification, as represented by return on production assets. However, some other mechanism must be found for an effective impact on the area of utilization of production assets. If an indicator similar to return on production assets is employed, we regard as interesting the proposal that profit in its calculation be replaced by adjusted value added. Especially as long as wages are controlled in relation to adjusted value added, adjusted value added follows analogical developmental trends as profit, affects the main components in accumulation of financial resources, i.e., outputs and material costs, and is, first of all, considerably higher than profits, which enhances the importance of the nominator in the construction of the indicator.

#### A Note on the Tasks for 1984

The tasks for 1984 were stipulated on the basis of the tasks set by the Seventh 5-Year Plan for 1984 and with regard to the development in the first half of the 5-year plan and the projected fulfillment of the financial aspects of the state plan for 1983.

It should be noted that the proposals of the ministries in the preparation of the annual operational plan did not play as positive a role as anticipated when the counterplanning method was introduced. The proposals were explicitly of the "demand" type; their acceptance would mean a deficit between the proposed accumulation of financial resources and the meeting of requirements in the amount of Kcs 46 billion. The ministries proposed that the share of material costs be reduced by 0.35 percent, which is lower not only than the task of the 5-year plan (0.64 percent) but also than the proposal by the VHS's (0.42 percent).

When paring down the material requirements the adopted state plan proceeds from the objectives of the 5-year plan. Our organizations must fulfill their assigned tasks and at the same time demand that the higher prices of fuels and energy be offset; this represents additional savings of about Kcs 1.2 billion. This approach by the financial plan provides the prerequisites for an efficient application of the wage control system as well as for the implementation of measures which will exert pressure for lower material consumption.

It is envisaged that the dynamism of outputs will be restored and that they will increase by 2.2 percent, i.e., Kcs 25.5 billion. This permits the stipulation of a more challenging task to reduce the share of total costs in outputs--it will decline by 0.62 percent, which represents an absolute savings of Kcs 6.6 billion.

Returns on production assets are considerably higher than the task stipulated by the Seventh 5-Year Plan--7.48 percent in industry against 6.79 percent. With a slightly higher volume of capital assets, such growth will be achieved in the sector of profits; an increase of Kcs 8.6 billion is projected for the industry.

The state plan for 1984 contains tasks whose fulfillment calls for their linkage with positive economic tendencies in effect thus far and, on their basis, for an overall rise in efficiency. According to the projection, adjusted value added will increase by Kcs 15.4 billion, i.e., 3.7 percent, and gross national income by approximately the same amount. This challenging objective demands that the share of consumption in the production of social product decline by 0.4 points as compared with 1983 as well as with the task stipulated by the 5-year plan.

The concept of the financial part of the state plan for 1984 provides the prerequisites for the fulfillment of the 5-year plan in that sector. However, it still is important that in the fulfillment of material objectives the financial plan and economic mechanisms derived from it contribute to the highest possible accumulation of resources and intensify the principles of efficiency and quality. This is a necessary approach to the proposals for the Eighth 5-Year Plan and to amendments in the system of national economic management on every level of the management for that period.

9004

CSO: 2400/299

ELIMINATION OF WAGE EQUALIZATION URGED

Prague HOSPODARSKE NOVINY in Czech 30 Mar 84 pp 1, 4

/Article by Eng Premysl Tomasek, first deputy minister of labor and social affairs of the CSSR: "Increasing the Economic Efficiency of the Wage System"

/Text/ Approval was given recently by the CPCZ Central Committee, the Federal Government and the Central Council of Unions to principles of the second phase of the program for increasing the economic efficiency of the wage system which, as an integral part of the Set of Measures for Improving the Planned Management System of the National Economy, is organically linked to the tasks of the first phase and will be gradually implemented beginning next year.

The approved program is an exceptionally important measures politically and economically in this and the upcoming 5-year plan, and directly concerns the most personal interests of 5.5 million workers. It is therefore a common matter for all state, economic, party and union organs and organizations at all levels of management.

According to Socialist Principles

The objective of the program is to utilize wages better as an important mechanism for labor motivation and material incentives, to strengthen its economic function and to introduce more significant differentiation and a greater role for merit in determining compensation. In addition to the primary requirement of applying socialist principles of compensation, this concerns the essential congruence between the volume of wages paid and the formation and use of the national income, of assuring a faster rate of increase in the social productivity of labor than in nominal wages. This will fulfill the objective of achieving a balance between national income formation and wage resources at the same time that it fosters an economically justified relationship between the incomes and expenditures of the population. Healthy development in this area is a reliable guarantee that there will be enough goods on the domestic market to satisfy the monetary incomes of the population.

Joint efforts to achieve the comprehensive intensification of economic development demand that all elements and levels of management bear their shares of the responsibility for the proper conduct of wage policy. For this reason state organs which determine the strategy for this policy must place greater

emphasis on achieving differentiation and less equalization in compensation. A great deal of responsibility for practical implementation lies with the organizations themselves--workshops, operations, plants and enterprises, where decisions are made every day concerning merit. Every instance of the neglect of this principle has harmful and often unrectifiable consequences.

There is no doubt that wage equalization has been harmful to us for a number of years already. It is a serious antisocial phenomenon which devalues the results and correct principles of socialist compensation for work and disillusion those who are able and willing to give to society more than a mere average performance. We therefore have a joint responsibility to recognize superior work and compensate for it according to its contribution to society, as well as seeing to it that poor, careless and low-quality work is punished and made an example of. Even though this is not an easy matter and is often filled with conflicts, a resolution can be put off no longer. There is a direct relationship between this and the further development of socialist society, with an increase in productivity and performance which determines, in the fullest sense of the word, our standard of living.

Even though most collectives are fulfilling their tasks well and responsibility there are still individuals who lag behind at work and whose efforts are mediocre. Many of them do not adhere to established norms, violate production, technical and labor practices, and perform work that is not even up to minimal standards. Most of our people rightly expect that compensation should represent a just valuation of professional, creative and high-quality work, and that the measure of the material wellbeing of each individual should be the results of his own work, and that those who fulfill their assignments well should be compensated according to their merit. In such a confrontation comfort, indifference, superficial knowledge and ability do not pass muster.

It is obvious that a qualitative turnaround in wage policy requires a fundamental change in the approaches and attitudes of its administration, especially in its practical aspects. Many years of experience convincingly show that senior managers have an indispensable role to play here. At present, therefore, increased demands on their work are coming urgently to the fore--demands on their principles, political responsibility, professional commitment, moral strength and personal courage. Their approaches to compensation should be an essential criterion of their preparedness to lead a work collective.

#### Basic Program Objectives

An increase in the effectiveness of material work incentives will be purposefully developed in two directions, namely through the rational formation and allocation of resources for wages (wage regulation), and through the fair distribution of the results of work through the wage system.

Techniques of the formation and allocation of wage resources must:

--strengthen the dependence of wage resources on the level and development of the national income, with a portion of wages payable resources tied to indicators which express the labor-intensiveness of production and the remainder tied to economic effectiveness criteria;

--provide for a closer relationship between the development of wages and increased labor productivity, the technical sophistication and quality of production, with economic incentives for most workers tied to final output, to the effect of their work;

--establish a level and growth rate for wages that is directly related to the results of economic activities in the form of obligatory wage limits for a 5-year period;

--make more strict the policies regarding organizations which do not adhere to these obligatory wage limits, but continue to lobby for a return to the planned proportional development of wages;

--systematically evaluate the development of wages, and especially the proportions between achieved economic results and the consumption of wages payable, between the development of nominal wages and that of labor productivity.

As far as the wage system is concerned, the objective is the implementation of a comprehensive program for increasing the economic effectiveness of the wage system that will achieve the following goals:

--thoroughly implement in practice the merit principle, so that the compensation for every individual will be directly dependent on the results of his own work and its contribution to society;

--improve and expand in a planned manner the base of labor consumption norms and technical-economic norms and use them as a mechanism for internal enterprise management and for the reliable measurement of work and compensation for it;

--focus efforts to improve the wage system on the incentive component of wages, premiums and bonuses of all kinds, and orient these efforts towards critical research and development tasks, economic efficiency and work quality;

--strengthen throughout compensation the roles of personal development, work stabilization, long-term and reliable output and labor initiative;

--implement realistic incentive programs but also material responsibility for the fulfillment of assigned tasks by all workers;

--introduce tested forms of collective incentives, above all the brigade form of work organization and compensation, by means of which the principles of khozraschot, efficient division of labor, increased professional sophistication and material and economic incentives and accountability for work results may be implemented;

--implement throughout management more substantial differentiation in compensation, place a more accurate value on work in assembly line and multishift operations and at locations with exceptionally hazardous working conditions;

--in accordance with the resolutions of the Eighth CPCZ Central Committee Plenum, implement measures for a corresponding evaluation of highly productive

and multitasked technicians and engineers of the preproduction phase, primarily research and development workers, designers, builders and technicians, and tie their incentives to final output and the final results of R&D progress;

--strengthen the social position and authority of masters, free them from nonessential administrative tasks and create for them better management conditions along with improvements in their salary levels;

--strengthen the role of wage rates as a basic mechanism for material stimulation and wage differentiation, gradually rebuilding an effective wage structure and more effectively evaluating differences in qualifications and working conditions;

--increase the effectiveness of the control of work and compensation for it, and the responsibility of senior managers for the implementation of socialist compensation principles.

These objectives form the basis of a program for increasing the economic effectiveness of the wage system, the practical implementation of which is adapted to the demanding conditions of the Seventh and Eighth 5-Year Plans. It will be realized over two periods of time. The first phase (which began in 1981-1983) was focused on improving and expanding the standards base and on increasing the incentive component of wages.

A rigorous evaluation of this phase demonstrated that the main objectives are being gradually fulfilled. The base of norms of all kinds is being gradually expanded and upgraded, the incentive component of wages is becoming more and more oriented to the strategic objectives of economic development, the specificity of indicators for premiums and bonuses is increasing, the gradual introduction of personal evaluations for workers and technical-economic employees is taking place, brigade forms of work organization and compensation are being tested and expanded, and in a number of enterprises progressive forms of wages are already being implemented.

At the same time the results that have been achieved vary considerably and there has been a great deal of inconsistency in implementation. Our practical objectives are not being served by lags in the introduction of the new objectivized norms. There continues to be insufficient rigor in establishing conditions and indicators for premiums and bonuses, differentiation in their rates is often formal only, without regard for the difficulty and sophistication of assigned tasks. Wage differentiation is being implemented slowly, and egalitarian trends and social attitudes toward compensation persist. Clear errors and shortcomings are tolerated, which reflects an unacceptable level of accommodation in the managerial process. The result is to weaken the effectiveness of material work incentives and to make more difficult the objectives of a comprehensive improvement in the wage system.

#### Embarking on Phase Two

The successful handling of the objectives of economic and social development in the 1980's requires the thorough implementation of economic intensification, and above all the acceleration of research and development progress and its

practical utilization. It is necessary to expend more economically raw materials, materials and energy, to utilize production faculties and the work force better and to increase the quality of output substantially. In conjunction with this it is urgent to increase the effectiveness of managerial and organizational work and to assure a harmonious flow of production. An important incentive for this is represented by the second phase of the program for increasing the economic efficiency of the wage system, which is projected to take effect in the 1985-1987 period.

The main objective of this second phase is the introduction of the principle of compensation according to performed work and an intensification of wage differentiation in connection with work and economic results, personal abilities, and labor initiative. At the same time this is a matter of an improved valuation of performed and creative work and a simplification of the wage system.

This second phase projects a continuation in the objectivization and expansion of the standards base for labor consumption. A wider introduction of collective forms of economic incentives, as well as the broader activization of internal enterprise khozraschot, which has a long and respected tradition in our country, are planned. After the experimental verification of brigade forms of work organization and compensation, results will be evaluated and, based on these accumulated experiences, its proven features will be integrated into economic practice. The brigade form will thereby become a component of economic policy and one of the main forms of work organization and compensation in workshop collectives. By the end of the Eighth 5-Year Plan the level of organization into brigades should reach at least 50 percent, with two-thirds of these brigades shifting to full khozraschot. Their role may under no circumstances be restricted only to issues of material interest; from the beginning it is essential to create the conditions for rhythmic work, improved technical preparations for production and work organization, improvement in internal enterprise planning, the development of the standards base and of compensation according to demonstrated merit.

#### Changes in the Rate System

Justified changes are projected in the rate system--in basic wages. There will be modifications in the qualification catalogs for blue-collar workers and for technical-economic employees; it is expected that there will be an expansion of blue-collar worker compensation according to qualificational categories. There will be changes in the classification of managers of organizations and of internal enterprise divisions; their classification and therefore their basic pay will in the future be dependent on the technical sophistication of production, the amount of capital assets under their management, export volume, the amount of shift work, territorial composition, but under no circumstances solely on the number of workers under their management. The wage rates for blue-collar workers and technical-economic employees, which after 10 years are obsolete and have lost their regulatory function, will be raised by an average of 15-20 percent.

This graduation of blue-collar worker wage rates is based on new techniques for the evaluation of social conditions which better express their mutual positions:

in addition to extra-qualificational work and social factors, this new technique also takes into consideration the sophistication of production and the importance of specific divisions to the production process. For technical-economic employees, it is expected that personal evaluations will gradually be instituted on a broad basis, which will make it possible to differentiate the levels of individuals wages better than under the current wage scales, in a majority of which subjective decisions predominate. At the same time various types of supplements added to wages will be merged and simplified; in the interest of reducing administrative red tape, it would be appropriate to speed up decisions of this kind.

#### Much Depends on Quality of Preparation

The realization of the second phase of this program depends on the fulfillment of demanding conditions and criteria which, taken together, express social requirements which must be fulfilled by every organization in order to implement these new wage conditions. Their fulfillment must be evident in increased output, increased labor productivity, and in improved economic performance.

The shift to these new conditions will take 2 or 3 years. Priority will be given to enterprises which adapt to these tasks fully and in a timely fashion. Organizations which are not capable of assuring the established conditions must put off the shift until these conditions are met. It is expected that a select group of organizations in the major production and economic sectors will have implemented these requirements by the beginning of next year. After gaining experience in the second half of 1985 they will then proceed to implementation on a broader scale. In the other national economic sectors--in retail services, local economies, etc.--testing will take place later, with a time lag of 9-12 months.

Preparations and implementation will be handled by central, union and enterprise committees. Responsibility for agreeing to the introduction of new conditions will be borne by economic production units, or kraj national committees. These organizations will review comprehensively the state of readiness and make their decision accordingly.

Implementation should not create erroneous thoughts of increased wages which are not supported by work and managerial performance--by the growth of output, quality and effectiveness. From the beginning it is essential to reject attempts to increase wages without merit. Success depends on the creation of favorable conditions for smooth production and rhythmic work. Every employee, and above all senior managers, must do their part to achieve this. Experienced blue-collar workers, inventors and improvers, bearers of progressive work techniques and everyone who strives to improve conditions of work and compensation should be involved in these preparations. It is necessary beforehand to discuss with every employee the conditions and groundwork for further improvement in his work performance, as well as the benefits that the implementation of new compensation principles will have for him.

To facilitate these preparations and the course of implementation, the CPCZ Central Committee Presidium has approved a plan for a unified approach by

state, economic, party, union and youth organs and organizations. This consists of specific tasks with deadlines for the individual organs, including tasks for economic propaganda, education and training. Employees throughout the ranks of management will be acquainted with it.

The implementation of the second phase of the program for increasing the economic efficiency of the wage system must become an important component of the work of all levels of the management, as provided for by a resolution of the 16th CPCZ Congress and 10th Revolutionary Trade Union Movement Congress. This requires that efforts be stepped up to do a good job on the actual preparation and realization, with the objective of achieving better results, increased output and more effective management. Only on this basis may wages be increased. It is also assumed that all shortcomings, manifestations of obsolescence, routine and formalism will be eliminated, that proven work techniques will be popularized and generalized, and that positive experiences from the application of socialist principles of compensation based on actually performed work according to merit will be made use of. Only in this way will we achieve the results we are after.

9276

CSO: 2400/315

## GERMAN DEMOCRATIC REPUBLIC

### BROWN COAL MAJOR SOURCE OF ENERGY, BASIS FOR FUTURE GROWTH

East Berlin NEUES DEUTSCHLAND in German 23 Apr 84 p 3

[Article by H. Rieck: "Stable Energy Base - Asset Item of our Balance Sheet"]

[Text] The coal and energy industry is a sector which plays a key role in the further accomplishment of the primary mission in terms of its unity of economic and social policy. Coal miners and energy workers of our republic responded to the clear long-range guidance for their economy branch and the profound improvements of their life, growing out of the policy of the primary mission since the Eight SED Congress in 1971, in the form of numerous significant mass initiatives aimed at increasing their output.

Everybody today understands this: The solid foundation, which must be used in the most effective manner for a high national economy output increase, consists of the country's brown coal deposits. This is a treasure which will last far into the next century at the planned future annual mining rate of 300 million tons. During all of the years since the republic's founding, we have been concentrating a significant part of the country's investment funds on the mining and use of domestic brown coal. That gave us and still gives us certainty as we tackle our projects.

#### Advantage of Planning Under Socialism

An advantage of our socialist social system becomes particularly clear especially in the energy sector: long-term planning of national economy processes. The first major energy projects during the early years after the republic's founding--such as the power plant construction projects in Trattendorf, Luebbenau, and Vetschau--were followed by gigantic power plants likewise using brown coal, such as Boxberg (3,520 Mw) and Jaenschwalde (final expansion phase up to 3,000 Mw). Names such as the Markersbach pump storage station, the Schwarze Pumpe gas combine, the Salzwedel natural gas field, and our nuclear power plants mark this route of planned expansion of a stable energy base. Tremendous efforts and certainly by no means small investments were required to develop brown coal deposits.

Since the Eighth SED Congress, 16 new strip mines were established; they include Delitzsch Southwest, Jaenschwalde, Cottbus-North, or, very recently, Dreiweibern. Mining capacities were increased with the addition of more efficient equipment in another ten strip mines.

Since 1949, brown coal mining more than doubled and electric energy production more than quintupled.

Since 1949, the installed power plant capacity has been increased by 17,700 Mw.

#### Place Among Leading Countries

Every other kilowatt hour today comes from big power plants which were connected into the grid after the Eighth SED Congress.

The per-capita electric energy output is more than 6,000 kwh. This means that the GDR holds a position among the world's eight leading countries.

Cooperation within the CEMA, especially with the USSR, proved to be of inestimable help here. All big power plants and of course also the nuclear power plants erected in the GDR were planned with the help of the Soviet Union which also delivered most of the main equipment.

Brown coal--its annual output is to go up to 288 million tons this year--is and remains the most important initial material for the country's energy and raw material supply. Today it provides more than 71 percent of the total energy source yield in the GDR. Through the accelerated rise in the mining output--by about 20 million tons over the past 3 years--we created the basis for generating today about 83 percent of our electric energy from this "black gold."

Even considering the growing expenditure for mining, resulting from the changed mining conditions, brown coal is still the economically best and most effective raw material source for the GDR. The expenditure can be reduced if we use more efficient equipment. With the help of improved technologies, we can reduce fuel consumption also in the thermoelectric power plants. Research results aimed at reducing noxious substance emissions--which were developed in the republic--are of great importance. The method for flue gas desulfuration with the help of dry limestone dosing for brown coal [as published] has in the meantime been tested in practice. Its application in other thermal plants and power plants is being prepared.

During the coming years we will try to achieve a qualitatively new stage in the refinement of domestic brown coal. Coal gasification and liquefaction is assuming utmost importance here, as was emphasized at the Seventh Conference of the SED Central Committee. We are stepping up the use of brown coal burning

dust whose output over the past 3 years was almost doubled. By 1990, it will again be doubled. Heating oil or gas can thus be replaced and the existing oil boilers can be used.

The output of domestic natural gas was increased from 9.8 billion cubic meters in 1982 to 11.8 billion in 1983. Over the past 2 years, 949 kilometers of district supply lines were built in the GDR for the purpose of transportation to the consumer centers; that includes 742 kilometers as part of the Central Youth Project of the FDJ [Free German Youth]. All of this enables us to master a structural change which has become necessary for the sake of the national economy: The replacement of imported energy sources, especially fuel oil.

#### Effects Firmly Included in Calculation

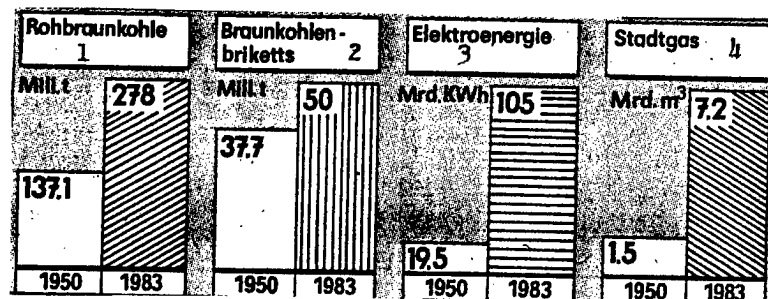
New coal gasification methods open up prospects for brown coal both in terms of more effective energy use and in terms of material management. This makes coal even more valuable in the future as an initial material for chemical products. We will thus not only increase the share of brown coal in the primary energy balance sheet but we will also have to exploit every opportunity for saving brown coal as energy source.

The ever more efficient use of existing energy sources, through the utilization of new scientific-technical possibilities, such as microelectronics and above all the optimization of energy-intensive processes, is one of the domestic growth sources whose exploration is today more important than ever before. Guaranteeing the higher output targets also for 1984 without an increase in primary energy, reducing the energy intensity by at least 4.2 percent and thus saving the equivalent of 16 million tons of brown coal--that is the most important thing here. These effects are firmly included in the calculations to guarantee the country's future energy balance.

In this effort we can fall back on valuable experiences gathered in past years. It is a great achievement--which also aroused great attention abroad--that the national economy's output increase and the implementation of the measures in the social-policy field starting in 1981 were guaranteed with the same or with a declining primary energy consumption volume.

We are also stepping up the expansion of our nuclear power plant capacities, of course while fully guaranteeing safety procedures; this statement was made at the Seventh Conference of the SED Central Committee. But the thing that is today very important to the rise in the national income is energy-

conscious thinking and acting. We will continue the policy aimed at the maximum possible refining combined with the most economical possible use of all energy sources which has served us so well until now.



Dynamic Output Increase Since Founding of GDR. Key: 1--raw brown coal; 2--brown coal briquets; 3--electric energy; 4--city gas; Mrd--billion.

5058

CSO: 2300/448

# STATISTICS PRESENT PICTURE OF COUNTRY'S COMPETITIVE CAPACITY

Budapest MAGYAR HIRLAP in Hungarian 10 Apr 84 p 7

[Article by I. W. K.: "Statistics and Economy; Conference on Intensive Development, Constant Renewal"]

[Text] "Ever more frequently in recent times we use the concept of international competitiveness to characterize economic efficiency," Dr Bela Csikos-Nagy, president of the National Material and Price Offices, began his talk. "In an economy sensitive to foreign trade it is natural that one cannot judge the competitiveness of an economy on the basis of internal prices alone. Still, earlier, it was as if we had forgotten about international competitiveness. In the 1960's the slogans were intensive development and selectivity and in the 1970's we talked about products which could be sold on every market. The value judgment of the external market remained in the background also because it could play a role in only one area in foreign trade, in the countries with convertible exchange. Agreements in kind dominated within CEMA.

"But the oil price explosion which took place in the mid 1970's frustrated the calculations based on low prices. It became clear that one could respond to the world's economic challenge only with a permanent accommodation process, with constant renewal. In practice this happened in agriculture between 1957 and 1975. But in industry this process took place only slowly. Between 1968 and 1979 we recognized the independence of industry, but we related this only to the microstructure, that is to the product structure. But the re-ordering process in the world economy awakened those guiding the Hungarian economy also to the fact that in this branch as well independence must be extended to the macrostructure, i.e., to the area of development also. Thus the price became the general regulator for the 1980's--just as in 'true' market economies."

## Competitive When?

"International competitiveness is not the only concept we have discovered recently, and one that we use schematically as a slogan. We must be careful lest it is turned against us as a result of schematic application. It is difficult to establish in black and white concerning some area whether it is competitive or not. For example, an international study prepared about the

competitiveness of European capitalist countries ranks them on the basis of 284 qualitative criteria. The distinguished place of Switzerland and Japan prove that it is not unconditionally or primarily natural resources which decide whether an economy is competitive or not. At least as much depends on the human factor.

"Experience proves," Dr Bela Csikos-Nagy emphasized, "that there is no production structure which would be competitive in its every element. There are always crisis branches the fate and future of which must be decided.

"One can regard as general the view according to which one can achieve a healthy structure policy for a foreign trade sensitive economy only if one creates an internal balance. The more closed a country is the more it can permit itself a shortage of goods with low, or rather frozen, prices. Since 1957 Hungary has been trying to ensure a suitable domestic supply of goods, but this could be done only with increasing prices. Experience proves that whatever the balance within the economy the enterprises always try to produce primarily for the domestic market, not for the capitalist markets. They do not prefer the latter even if the prices are higher there and one can make a larger profit there. The security of the domestic market means more than the possible material advantage, which requires more demanding work and may end at any time. So it is not by chance that in the Hungarian economy in recent times export pressure has received great emphasis, in addition to incentive.

"The significance of competition is frequently emphasized also. Sometimes we related this only to the enterprises, but there is a danger of agreement, that the manufacturers will make a cartel agreement with one another, that is agree on a price. This is less conceivable for products, primarily if a good manager leads this competition.

"The big tasks for the future include producing some sort of harmony between export interest and inflation. Experience proves," the president of the price office noted, "that processes can be managed easily in the Hungarian economy up to a five percent price increase, but above seven percent a number of problems come to the fore and respect must be paid to the ability of society to tolerate it.

"Although the tasks before the Hungarian economy are unambiguous it must be seen clearly that we must make progress in an extraordinarily complicated medium. There are two world markets--with entirely different mechanisms. CEMA is the determining one, but the convertible market represents almost the same ratio in Hungarian foreign trade. So changes must be made keeping in mind the needs of both areas."

#### Full and Effective

Dr Albert Racz, president of the State Wage and Labor Affairs Office, analyzed the manpower management aspects of economic development. Reviewing the past 3 decades of employment policy, he pointed out that while the chief task in the 1950's was to create full employment what is on the agenda today is full and effective employment. "So a number of measures have been

introduced which make possible a flexible expansion of manpower supply. For example, the rigid limits on employment with a pension have been relaxed, it is possible to work while drawing child care benefits, the manpower distribution offices have been transformed and a number of labor regulations have been passed which might expand manpower supply. But in addition to the constant shortage we must also reckon with a manpower surplus. At least this could follow from more moderate economic growth. Retraining aid and a competition system in higher education have been introduced to prevent tensions.

"At the same time, if we take into account the result of the measures, we can speak of most scanty achievements. For example, it is futile to try to expand the part-time work system with more flexible regulation if the work organization and limping material supply of the employers are incapable of making use of it. The regulations in themselves are not sufficient to realize effective employment. If regulation and change in the economic structure do not force it then every easing on the part of central organs is in vain. The experience with experimental wage regulation is interesting also. In most of the participating enterprises this possibility produced greater performance, especially in export. At the same time the participants did not want to get rid of the superfluous manpower but rather wanted to expand production with even more workers. In other words, manpower is still cheaper than any other production factor. So in the future one can expect that there will be an attempt to ensure effective employment by making manpower more expensive. Not everyone agrees with this because in this way we will lose one of our comparative advantages, cheap labor. This is true," Mr Albert Racz emphasized, "but it would produce a constraint which would finally force the enterprises to manage manpower more wisely. At the same time it must be seen that an effective employment policy is not simply a task of wage and income regulation but rather an important task for economic guidance as a whole."

#### Slow Reaction

"The crisis branches represent 45 percent in convertible relationship export," said Dr Tibor Melega, deputy minister of foreign trade. "We react rather slowly to foreign market changes also. Certainly these two factors play a significant role in the fact that convertible export remains below what is desired. In this respect the category of crisis branches should be interpreted more broadly; it includes not only the textile industry and metallurgy but also those areas which have a good bit greater capacity than there is a market for. By the end of the 1970's a new, pressing requirement was coupled with the task of efficiency--preserving the solvency of the economy. This latter presumes an increase in capitalist export. And all this under circumstances in which there is a slump on the world market and various protectionist measures make it difficult, for example to get onto the Common Market. In addition we must count on a significant customs disadvantage. Under such circumstances it is very important that we aid export with advantageous commercial agreements, if possible guiding Hungarian products toward more favorable markets. And what is most important, in production we must adapt more quickly and more flexibly to the changed external market situation."

"The intensive phase of economic development also requires a modification of the statistical information system," emphasized Dr Mrs Ferenc Nyitrai, chairman of the Central Statistics Office. "We must introduce systems of indexes oriented less toward growth and more toward efficiency, and we must regularly follow or examine the mechanisms in both social and economic statistics. The statistical reports could help in getting a clear economic view so that we can see realistically where we are today and what tasks await us in the future."

[An accompanying table titled "Development of the Income of the Populace in 1983" provides the following information: Average monthly earnings for workers and employees (including wage supplements), 5,240 forints or 104.6 percent where 1982 equals 100; total social income in money, 112 billion forints or 109 percent where 1982 equals 100.]

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# ECONOMIC CONTROL, MODERNIZATION OF FINANCIAL INSTITUTIONS DISCUSSED

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[Article by Dr Laszlo Gyorgy Asztalos, Dr Lajos Bokros and Dr Gyorgy Suranyi, scientific collaborators of the Research Institute of the Ministry of Finance: "Reform and the System of Financial Institutions"]

[Text] The events of the last decade have shown that our economic difficulties and our running into great debts were not solely the results of the deterioration in the conditions of world economy, but were also due to the unsatisfactory function of our macroeconomic management in the broader sense of the word. The Hungarian economy reacted to the acceleration of changes in the world economy very slowly and thus far only defensively.<sup>1</sup>

The banking system has worked more or less properly when implementing the strategy of cautious accommodation, that was a substitute for structural changes, and which was also accepted by the world market. But in the long run the Hungarian economic system could not comply with the requirements of the world market except if it--in addition to tolerating and transmitting government decisions--also becomes capable of stimulating and even compelling the other sectors of the economy to adapt themselves quickly and flexibly to the changing conditions. But at the same time it would be illusionary to think that a modification of the financial system alone could create the conditions of active economic adaption. Modifications in the banking system are necessary but not sufficient conditions for a development of the macroeconomic management. It follows from this that it would be useless to amend the banking system alone, since this would only increment expenditures and aggravate tensions without producing tangible advantages. Expansions and tensions will of course occur also in case of an organic integration of the updated banking system into the modernization of the macroeconomic management as a whole. Yet these can and must be undertaken for the sake of development.

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1. From all this it has emerged a cautious and passive behavior, bent upon to continuously build internal resources--consuming them in part when the conditions became more rigorous--trying to prove relentlessly the need of accommodation with the changing expectations and keeping the monopolistic situations jealously and not only through ties with the market.

## The Main Contradictions of the Present Banking System

The present form of our banking system can only perform many of its functions more unsatisfactorily than expected:

1. The bank credits granted to the enterprises are playing only a subordinate role in the allocation of the resources, both in a quantitative and a qualitative sense. In a quantitative sense because we rechannel too many kinds of incomes through the treasury. The incomes that flow through the state budget are therefore significant also from the standpoint of capital accumulation. Moneys allocated on the basis of non-objective considerations (i.e. not based on market conditions), which imply less severe requirement of reimbursement, are per se hurting the norms of the credit-sphere. In a qualitative sense in the first place since the plan formally (for example through branch contingents) or informally (for instance through "large investments" financed by export-stimulating credits) precludes from the very outset a comparison of the development goals and bars thereby a banking decision based on profitability.
2. The amount of money in circulation must be regulated in accordance with the economic trends. An increase in the amount of money in circulation decreed by the treasury does not meet the requirements of a flexible regulation, since in this case the system becomes asymmetric. This means that it is impossible to influence the ownership structure of the money in circulation, because the moneys issued through a permanently deficitary state budget do not vanish even formally and thus they cannot be redistributed to new owners. In case of growth this procedure may be useful for the distribution of the increased money circulation, but during stagnation and recession it causes directly and indirectly inflation or forced accumulation of money, and this blocks the structural change that ought to meet the requirements of the market.
3. Short-term credits are playing, since the 1970's, a smaller and smaller role in the financing of the circulating funds [18,34]. The system of financing the circulating funds is too rigid. This system prescribes (independently from the economic performance of the enterprise) a unified self-financing method for the continuous growth of the circulating fund. This restrains unnecessarily the dynamic development of the profitable enterprises. The system elicits a situation in which the enterprises become indebted to each other. It is in part due to this that in 1982-83 the number of enterprises queuing for credits grew significantly. On the other hand the number of enterprises which are financing their circulating funds from their own resources has been steadily growing and this has decreased the possibilities of exerting influence through credits.
4. In view of what was said above, it seems that the Hungarian National Bank is unable to wield these typically banking instruments for the regulation of the money in circulation. Moreover securities are mostly missing from its instruments of regulation. But at the same time it is obvious that it would be necessary to regulate the solvent demand according to the internal and external conditions of balance. The bank is compelled to perform this function --because of the absence of the above mentioned banking instruments--by using

official measures. Amortization rules, which differ from the contracts, a posteriori amendments of interest rates, the unilateral employment of enterprise resources, etc, are frequent occurrences against the will of the bank. Yet what is essential is that in view of the non-businesslike relations between the bank and the enterprises, another official-administrative element has been brought into the macroeconomic management.

5. Another problem is that the institutions and forms of acquiring durable resources are absent. Thus there is a trend toward the lasting and final increase in resources primarily by means of credits. As a result of this the length of the credit-terms is growing. Yet a maturity beyond ten years is practically unpredicable. Under the present regulation conditions it is hardly possible to take a risk and responsibility for such a length of time. In such cases the credit no longer constitutes an advance on future incomes and such credits make it impossible to enforce the proper requirements of credit granting. This does not imply only that the original conditions are becoming untenable, but also that the requirement of reimbursement--even in case of permanently profitably working enterprises--are unreal from the very outset, if the credit is the only external source. Formally demanding requirements nurture profit-inflation, while non-compliance with them causes credit-inflation (funds stuck in circulation). [5] Ultimately it is impossible to determine whether it is the weakness of credit-granting management or the tenuous character of the credit conditions and regulations which make the reimbursement of a credit impossible.

6. Lately the lots of credits that expired and have been rescheduled have grown significantly. Although the bank formally possesses the right of mortgage, under the present conditions it is unable to collect the debts which expired and is not even interested in doing it. The bank, because of its position in the hierarchy of the state administration, is not in a position to foreclose its right of mortgage.

On the one hand, as a consequence of the aforesaid, the bank itself cannot delimit the responsibility of the enterprises from that of the macroeconomic management, and on the other hand it possesses--at least domestically--unlimited capacity of disbursement and therefore it is completely insensible toward the trend of its profits. The internal organisational buildup of the bank rests on the principle of branches. Therefore the departments of the bank are more bound by the interests of the respective branches than by the requirements of banking management. Moreover non-economic considerations frequently compel the bank to refrain from exercising its right of mortgage. By this attitude the bank discharges the economic units from taking a risk and thereby isolates their development from the value judgment of the market.

7. There are no institutions capable of dealing on a businesslike basis with the liquidation or transformation of bankrupt enterprises. There are no enterprises that could play an intermediary role in the transfer of resources between the old and the new economic units. The kinds of securities necessary in handling such deals are also missing. [2]

8. At present there are among the investments made on the basis of government decisions a good many matters to which claims of profitability could and should be laid in the first place. However the resources needed for such investments are handled by institutions which are inevitably unable --in part because of their strict dependence on the plan and otherwise as a result of their internal structure--to base their outlays of resources on lucrative goals. For it is impossible to efficiently implement both clearly natural and clearly profit-oriented development decisions within the same institution. This makes the internal system of interests contradictory.

9. Our financial institutions are still characterized by the "large enterprise structure" and the lack of small and medium-sized enterprise background. On the one hand there are few financial institutions which are interested in financing developments which require less money and have a short-term maturity. On the other hand those which exist have little possibility of expansion. Finally, smaller financial institutions are severely handicapped in their development because they do not have the right to collect deposits, to keep accounts of others and to grant credits for working assets. Thus they cannot compete with the traditional financial institutions.

10. During the era of relatively rapid economic growth it perhaps had minor importance, but in view of the probability of slow growth in the long run and since the standard of living is expected to stagnate, the trend in the population's savings practice is now no longer a negligible factor. The monopolistic character of the population's savings deposits and credit granting to people, the restricted range of attractive savings and investment possibilities, the scarcity of the forms of insurance and the total insensibility of the institutions toward profits (National Savings Bank, State Insurance) are keeping the population's propensity toward savings at low level. [33]

The above mentioned deficiencies appear to be of strictly professional character, but in fact most of them are outward appearances of problems in depth, that characterize our system of financial institutions as a whole. The shortcomings of our financial institution system are ultimately the consequence of the fact that the role of financial policy in our macroeconomic management has not been made clear. It follows from this that the conditions of activity, the rights and obligations of either the individual financial institutions or their managers and workers have not been unequivocally defined. Under such conditions it is impossible to determine and enforce the responsibilities. A logical consequence of this is that emphasis is being put on informal regulation, under the aegis of which the financial policy and its institutions are ever more in a defenseless position.

The banking system as a whole is unilaterally subordinate to decisions motivated by natural (quantitative) considerations and to the state budget. In addition to the financial policy, which is dependent on the plan, the fiscal policy also acquired almost limitless authority over the monetary policy. Thus monetary policy and its instrument the banking system has been overshadowed by other governmental institutions.

The optics of the enterprises reflect the subordination of the banking system within the hierarchy of the central macroeconomic management as a dependency

of the state administration. This means that as long as the monopolistic banking system will not be compelled to assume sufficient responsibility for the monetary processes, it will enforce accommodation with the state administration with respect to the attitude of the enterprises to the detriment of business-like viewpoints.

#### Some Important Ideas Concerning the Development of the Banking System<sup>2</sup>

A first group of suggestions designs only the refining and completion of the existing financial management methods--leaving the current one-dimensional banking system unchanged [3,6,32,35,37]. It is argued that the extension of the role of merchandise and money and the strengthening of entrepreneurial independence will require that the role of central regulations through financial methods be increased. The arguments in favor of the maintenance of the one-dimensional banking system are primarily based on the shortcomings of the two-dimensional system. The most salient of them are: there is no real competition between the banks, the risk of bankruptcy is practically negligible, thus the interest of the banks in profits is very limited, the chances of central influence are minimal and the mechanisms that are established analogously merely increase the turnover expenses.<sup>3</sup> Insofar as the essence is concerned, the standpoint which theoretically and generally agrees with the decentralisation of the banking system, but calls into question its timeliness as long as the conditions of regulated market competitiveness are not prevailing in the economy and all elements of the macroeconomic management are not yet adjusted to this concept, belongs to this sphere of ideas.<sup>4</sup> The advocates of this opinion are now already recognizing the need of funding small, specialized financial institutions. But they wish to regulate and enforce the functions of these institutions by barring their growing into independent banks from the very outset and by precluding their management with monetary means.

Another characteristic type of proposals are made by those economists and financial experts who want the immediate and consequent decentralisation of the banking system [19, 20, 28, 41, 43]. The timeliness of this demand is closely related to the fact that the 1968 reform left the entire system of macroeconomic management and within it the banking system unchanged. In cognizance of this those who suggest the radical transformation of the banking system want to change both the ownership and the financial organisational buildup of the macroeconomic management at once. In their opinion it is necessary to establish the conditions of market competition also among the

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2. For a survey of the discussions concerning the banking system see/4/31.

3. On the basis of international experience it seems that these observations are not acceptable. See: /13/14/15/17/19/26/27/30/39/40/42/44.

4. For us it is not clear at this stage that if all this becomes true, why would it be necessary to transform the banking system, and how could these changes be carried out without a transformation of the banking system.

financial institutions, and the dependence of the banks on the authorities should be abolished. At the same time it would be suitable to establish a system of resource-circulation propelled by the profit motive through the development of the stock market. A further advantage of the decentralisation would be the strengthening of social control that would also stimulate a strong competition among managers and would help their rotation. Those who argue in favor of such a reform also emphasize that the subordination of the financial sphere should be abolished and the role of monetary instruments should be enhanced.

Between these two extreme standpoints there are a lot of intermediary proposals. Among them the opinion should be cited which deems it necessary to delimit the issue-banking and credit-banking functions and to increase the role of monetary guidance instruments, although maintaining the one-dimensional banking system [1, 24, 25].

Formally it is similar to this concept which in the short run considers the establishment of the two-dimensional system unrealistic and similarly proposes the separation of the Hungarian National Bank's issue-banking and credit-banking functions as a first step. However there is an essential difference between the two conceptions, i.e. that the advocates of the latter consider this move as the beginning of a long-term process that would ultimately create the conditions of a decentralized and two-dimensional competitive banking system [7, 8, 21].

Our own proposals stand close to this concept. In the following--as a start--we are going to sketch the goals the attainment of which may provide the rationale for the transformation of our financial institution system.

#### The Goal of a Transformation of the Banking System

We expect from the changes in the banking system the evolution of businesslike credit activities in the first place. This is primarily a qualitative and only in the second place a quantitative problem. Our goal is that short-, medium- and long-term credits should similarly be able to flexibly regulate the amount of money in circulation. In order to attain this, we have to assure that the financial institutions be able to shape autonomously their credit policy and credit giving activities according to their own preferences and business considerations, on the basis of their status of liquidity. This would entail that the unilateral subordination of the monetary sphere to the state plan and the budget should be discontinued. In the new situation the treasury would be compelled to rationalize its mechanism of returns and outlays to assert businesslike viewpoints.

We have to establish the institutional, legal and financial conditions of lasting basic allocation on a lucrative basis. The various forms of basic allocation may provide that the medium- and long-term credits fulfill only the classic credit-function, i.e. the function of advancing incomes that will really arise in the future. This would dampen the current profit and credit inflation and would face the enterprises with realistic requirements that could be consequently put forward. For this is also necessary that the banks become sensitive to the lucrativity of their activities and that they be interested

in maintaining their liquidity. For all this we need organisational changes in the existing financial institutions and the establishment of new institutions.

In financing investments initiated by the government we can set as a goal, in all those developments the character of which makes this possible, that requirements of profitability be unequivocally enforced as flowing from the interest of the financial institutions. From the point of view of national interest it is also very important to stimulate the willingness of the population to save. This requires that the population be able to choose among a wide range of attractive savings and spending possibilities. It is also necessary to expand the forms of voluntary and differentiated health and old age insurances which entail individual (social) participation. This will only be possible if we abolish the monopolistic situation of those financial institutions which are involved in this business. We also need in this area competitive institutions which are interested in earnings.

The most important consequence of these changes might be that the regulatory role of the money may become stronger in all areas of economic activities and money may become an attractive instrument for holding assets. The accumulation of money capitals and the businesslike creation of money connected with this is an indispensable condition of the arising of liquid resources which are necessary for quick and efficient structural changes. The attitude of the actors on the economic scene should change in the sense that the keeping of their continuous financial liquidity should become an important curb on their actions. The modification of the banking system is a necessary but not sufficient condition for the change that in the future we may talk about monetary management rather than about money supply to the economy; in other words that the monetary processes become upgraded from servicing the natural processes toward becoming the prime influence upon economic activities.

If we want to streamline the banking system along the line of the mentioned objectives, we would have to strengthen the role of commodity relations and the market but the change would also contribute to this. In analyzing the concrete modalities of development of our banking system we adopt this principle.

Our proposals refer directly and primarily only to the financial (monetary and fiscal) system, but they also entail the development of the macroeconomic management system as well as the organisational buildup of the enterprises along the currently accepted market-oriented conceptions.

#### The Interrelations of Planning, Budget, Banking System and Enterprise Management

From the vantage point of commodity and market conditions and of an increase in the role of market competition with equal chances the most decisive move shall be the separation of the sphere of financial institutions from the system of state administration. Not only the development toward a profit-oriented management of the enterprises depends on this but also that of the financial institutions. An economic frame of mind could not gain ground

anywhere lest we can separate the administrative conditions of subordination and authority of official character, which are motivated primarily by non-profit making considerations from the ownership-managerial conditions rooted in efforts toward a maximal increase in financial assets. Therefore we have to replace the hierarchical dependence of crediting, budget and enterprise management, that prevails in the current practice of planned economy, by such a horizontal system of connections in which these spheres of the economy are functioning as autonomous sub-systems on the basis of their own rules of operation. The three spheres, after the abolishment of their hierarchical subordination, would become then cooperating partners. For an optimal operation of the economy the equilibrium of these balancing "forces" is imperative.

From the point of view of the financial system this means in the first place that a modus should be established for the monetary policy to effectively control the plan, that assesses the evolution of the internal and external economic conditions already in the process of making.<sup>5</sup> It would be necessary to establish such conditions which not only make it possible but also unequivocally enforce that the financial institutions assume responsibility for the shaping of the monetary and credit policy and for the consequences of their practical decisions. The first step in this area should not be--in our opinion--the creation of a two-dimensional system. This would make sense only if the Hungarian National Bank [MNB] and the banking system first would stop being an institution at the mercy of the government's will and instead would become an equal partner of the government. We consider this latter move the most important and the prime and basic condition of all real change.

The upgrading of the banking system may be achieved in various ways. One of the alternatives might be that the president of the MNB becomes a member of the government at equal level with the chairman of the Planning Office and the person in charge of the state budget. The president of the MNB is obliged to implement all government orders which are in consonance with the directives adopted earlier by Parliament. The director of the national monetary policy may also carry out government orders beyond this, yet he should put his veto against any such measures that would jeopardize the implementation of the financial policy decisions adopted by Parliament.

Another possible alternative is that the MNB becomes independent from the government and its president is elected directly by Parliament. The president of the MNB shall not be a member of government and should be responsible to Parliament alone. The MNB should be granted authority for the shaping of monetary policy and in doing so it should be primarily directed by its concern for the maintenance of financial balance on macroeconomic level. The MNB should care for the regulation of the money in circulation. It should evolve its credit policy in consideration of the macroeconomic balance and the requirements of liquidity. Its sphere of action should not be restricted by any branch-contingent that may curb the equivalence role of the money, any financial demand of the state treasury, inspired by natural motives, nor by any non-economic interest.

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5. The difficulties of coordination of the various plans and monetary processes are analyzed in /16/.

The areas of monetary and fiscal decisions should be separated to the greatest possible extent and greater publicity should be granted to both of them than what is the case now. In the relations of the two areas the most important element is the extent to which and the modality of how the budgetary credit demand should be met.<sup>6</sup> This should be regulated in such a way that in both areas independent responsibility should prevail and flexible accommodation with the changing economic and financial conditions be made possible. Therefore on the one hand Parliament ought to decide yearly to which maximum percentage of the GNP and/or the state budget, and/or the budgetary investments the MNB should extend credits to the state treasury. On the other hand the treasury might get additional credits if it manages to issue bonds through the banking system that are voluntarily bought by the income earners.

Such an arrangement--as it beneficially strengthens the "budget limits" of the state treasury--might have the financial policy responsibility of the MNB as its most important contribution to change. Under such conditions the MNB can effectively assume the responsibility for changing the total amount of money in circulation (at least the equivalent of M1) for the national credit balance, for the financial equilibrium on macroeconomic level, for the policy of exchange-rate and to a great extent for the trends in the purchasing power of the forint. This concept might be objected on the ground that not even in the market economies has the banking system such an independence. For example the central bank is under government control also in the West [29]. Irrespective of the fact that we do not want to recommend anything that is wrong in the West as well we should take into consideration that, although the monetary sphere depends in many countries on the fiscal sphere, the extension of the latter has many significant social curbs which are more important than the legal restrictions [13, 39].

#### The Relations Between the Issue-Bank and Credit-Bank Spheres

The separation and conjunction of the monetary and fiscal spheres as coordinate systems may also justify the institutional delimitation of the issue-bank and credit-bank spheres. For a start we would not absolutely need the establishment of commercial banks, although in the long run this is certainly a goal to be attained. In the beginning we should create two bodies within the MNB, i.e. an issue-bank and a credit-bank branch.

#### The Issue-Bank Branch

--has the monopoly of issuing banknotes and is fully responsible for the shaping of the monetary policy according to the plans that have been approved by Parliament, in first place for managing the evolution in the purchasing power of the currency,

--regulates the credit, currency and foreign exchange operations in connection with the country's foreign economic relations.<sup>7</sup>

--directs by indirect, but if need be by direct (administrative) means the other monetary institutions, grants credit to and reinforces the state budget.

--coordinates the activities of the credit-bank branch and that of the independent financial institutions and supervises the emission of securities by the various economic units.

#### The Credit-Bank Branch

--flexibly provides money for the circulation, predominantly by granting short-term credits (which the issue-bank may refinance according to its own viewpoints),

--grants medium-and short-term credits for profitable investments by the enterprises and finances the circulating assets,

--takes care of the issuing of securities initiated by the enterprises, the state budget and the community institutions and participates in the subscription of securities, observing its all-time liquidity.

The institution of credit monopoly that at present exists merely as a formality should be abolished. Thus crediting may cease to be an instrument of central financial management and may become part of the market processes, as well as a means to influence the market.<sup>8</sup>

The sources of the credit-bank branch are:

- own funds received from the issue-bank branch,
- credits granted by the issue-bank,
- deposits by various income-earners,
- issuance of its own securities.

The ties between the two levels of the banking system are basically defined by the division of labor within the credit-bank branch.

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6. We interpret this credit-demand broadly to cover also the financing of investments that are implemented with the help of a state loan.

7. This, however, does not imply that all currency and foreign exchange business must be done by the issue-bank branch. Continuing the practice of past years it would be useful if other financial institutions would also deal with foreign exchange business to a growing extent. It is conceivable that in the future a few banks might be able to undertake active and passive operations in foreign exchange.

8. We agree with Tamas Bauer that the credit monopoly was in agreement with the character of a system directed by plan-commands but it is alien to a regulated market economy.

Theoretically various forms are conceivable:

- there is only one credit-bank attached to the issue bank,
- the credit-banks are specialized according to the branches and sectors of the national economy,
- the credit-banks are divided territorially,
- the credit-banks have a general scope of authority, customers may turn to any of them.

The concept described in the first place could only produce a formal change, would the banking system be changed in this way, the criticism included in the introduction would remain valid. In the second and third alternative the monopolistic situation of the banks vis-a-vis the enterprises would remain unchanged. And this would assure the survival of the administrative bargaining and would not make compulsory crediting on the basis of lucrativity, nor would it produce a reorganisation of the resources.

The establishment of a two-dimensional banking system alone would not make the system more flexible. This is proven among other things by the examples of the GDR, Poland, Romania and Bulgaria.<sup>9</sup> (In these countries the two-dimensional system had existed in certain stages of development).

It seems that the two-dimensional banking system may constitute real progress when compared with the one-dimensional system, if it is accompanied by the creation of competitive credit-banks of general authority. The transformation may only bring essential change if conditions of competitiveness are prevailing among the credit-banks. But we must have a realistic conception concerning the areas and forms of competition among the banks. For example, with respect to the interest rates we count with the possibility that the efforts of the banks toward the creation of a collective monopoly [36] may contribute to the unification of the basic interest rates. It is well known however that competition does not vanish even within the monopoly but it takes other forms. In agreement with the specific character of the relations between banks and enterprises and because of the dissimilar appraisal of the risks involved in each action, there might be slight differences between the competing banks with respect to the interests on credits in the first place and also on deposits. It is even a more important fact that there might be serious discrepancies among the banks with respect to their total income and the dynamics of its evolution, that are the results of the fluctuation in market participation and the structural and qualitative differences in their banking services. In this situation the banks are compelled to vie with each other for customers. This is in our opinion the only effective way to abolish the dependence of the enterprises on the banks as authorities. But this also postulates that the income earners should be able to make their choice among banks when making a deposit or taking a loan. In practice this might entail the possibility of the enterprises developing partnerships with various banks sim-

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9. These examples are proofs again that the character of the macroeconomic management determines basically the functions of the financial institution system.

ultaneously. The possibility of a choice alone may stimulate and compel the banks into trying to keep their customers and thence to take into account customer demands servicing them better.

In this connection it is presumable that the interest system of the banks will change too. Banks which work on the basis of their effective profit-interests are already bound to observe and call attention to the mutually undertaken commitments. Under these conditions the banks may collect their outstanding accounts by foreclosing their mortgage or else they may reschedule their loans imposing severe conditions.

The unequivocal commitment of the banks to take responsibilities and risks includes necessarily the acceptance of the possible losses and in extreme cases also bankruptcy. We should establish the institutional guarantees that in such cases the owners of small deposits entirely, and those of medium deposits in part be indemnified in accordance with the international practice [44].

Professional management of the relations between the issue-bank and the credit-bank branches entails unequivocally subordination on one side and ascendancy on the other. At the same time this professional management should be basically carried out with banking methods. By prescribing the obligatory portion of reserves and/or the rate of transfer,<sup>10</sup> by regulating the policy of interest rates, by granting credit directly, by discounting the various securities and by establishing ceilings for the credits that can be granted, the issue-bank will be able to direct the credit-banks under such conditions. Another important problem is the appointment of the managers of branch institutes of the credit-bank. In this respect the only thing which seems to be clear to us is that neither the president of the MNB nor the principals of the state administration should exercise the rights of employer vis-a-vis them. We consider that the contracts used in joint stock companies or in local autonomies, or some kind of combination of both may constitute a solution to the problem. But this can and should be determined only when the economic sphere will be revamped along the same lines.

The division of the MNB in two branches is only a transitory solution that may serve as a point of reference for the development of a really two-dimensional banking system. For if in the years to come the conditions of operating the economy as a whole will change toward a consistent realisation of market mechanism, it may become realistic to develop the institutes of the credit-bank branch into autonomous commercial and credit banks.

During the transition the starting point of the changes might be to grant authority to the sectorial credit departments of the MNB to carry out active and passive operations also beyond the limits of sectors. Further the enterprises should obtain the right to develop business deals with the various departments of the bank, independently from their classification into determined sectors. This concept also postulates that the system of credit

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10. The rate of transfer determines the proportion between the grand total of the bank balance and the fixed capital.

contingents that exist in the internal practice of the bank should disappear. This can only gradually be carried out since the closing of the gap between the different rates of credits and deposits of the individual sectors and the unification of the interest rates take time.

If the credit departments of the bank extend their activities to areas beyond their sectors and are splitting organisationally and in bookkeeping, the opportunity arises to create interest in profits on employee level.

The fact that the relations between enterprises and banks are going to become multiple is another justification for converting the issue-bank branch into a national clearing center. The technological background for this seems to be provided by the existing computers.

In addition to dividing the Hungarian National Bank into two branches it is an indispensable task, even in the short run, to create such financial institutions which on a businesslike basis are undertaking general and special operations. For example they grant credits for smaller and short-term investments, are participating in the tasks of basic research and enterprise founding, are drafting lend-lease contracts, etc. The seeds of such financial institutions have already been sown, but on the one hand it would be important to establish their organisational, business-creating and functional independence. On the other hand it would be useful to create new ones and to open the possibility for any income earner to establish such institutions. If they primarily arise from private resources, they could acquire the organisational form of the well-known limited partnerships [22]. These money funds may obtain their resources from the state budget, from the issue-bank and credit-bank branches of the MNB, from the enterprises and from the population as well.

The collection of resources could best be carried out by issuing securities. Such acquisition of resources warrants that the investors are sufficiently interested, it makes the sharing of risks possible and allows the income earners to maintain their liquidity by eventually selling their share in the fund.

In these small institutions the direct, albeit limited, financial interests of the principal employees could be asserted and they should have a veto right when their director is selected.

From the point of view of the future creation of a really two-dimensional banking system the importance of the fact that in such financial institutions a new enterprising generation of bankers may be trained at negligible risk, cannot be underrated.

Although it does not belong directly to the problem of the transformation of the banking system, but in connection with a satisfactory function of it, it should certainly be discussed that there is a need of such agency enterprises which deal with the reorganisation of bankrupt economic units, and the sale or release of a part of their resources. The funding of such enterprises requires the creation of such new credit and cash disponibilities that are necessary for the reorganisation of the resources. Since these funds do not

entail substantial additional demands on the market of goods and services, their inflationary impact is negligible.

From the viewpoint of the entire banking system the transformation of the development financing activities of the fiscal sphere is of basic importance. There we should delimit the developments that maybe financed on a profitable basis from those which cannot. (This delimitation does not overlap with the separation of the competitive sector from the non-competitive one, since there are many investments which in view of their character cannot belong to the competitive sector in Hungary, yet it could realistically be expected that they are lucrative. Such are for example development projects of the telephone network and certain community services.) The financing of such state investments in which the positive externals matters definitely cannot be charged to the users (public health, education, environment protection, parts of cultural activities, etc.) should be undertaken by an autonomous, non profit-oriented State Development Institution. In all other areas in which the state initiates investments or wishes to participate in them, it could place its own capital at the disposal of the entrepreneurs. The allocation of capital may be made also in the form of securities. In such cases the state can eventually sell its share in the capital if it wishes and is able to do so. The allocation of capitals by the state, if it is not the only source of the investment, should not entail any obligation for any of the other income earners who participate in the investment. If the banks find other chances for granting credits, they should not be obliged to grant a loan even for such an investment in which the "own" share of the enterprise comes originally from a state grant. Further the enterprises cannot be compelled to contribute with their own resources to an investment, merely because it was started with a basic state grant, if they do not find it lucrative. The mentioned capital-granting activity should be performed by an income-oriented "State Basic Grant Institute" that would derive its resources in part from the state budget and in part from the sale of securities.

State investments may certainly have also a third sector in which, albeit reimbursement can be demanded, development projects are supported by various state subsidies because of economic policy considerations. Such subsidies may be granted in the form of interest rate and tax allowances, government guarantees, amortisation benefits, etc. For the handling of all these subsidies it would be useful to establish a "State Subsidy Fund" that would receive its resources explicitly from the treasury. Such an institution could play an important role also in financing investments arising from international obligations.

An inseparable part of the general transformation of the banking system is the planned tripartite modification of the financial institutions which are closely related to the public.

The credit-bank branch of the Hungarian National Bank, if authorized to deal with all kinds of banking business, and even though it does not exercise this authority unconditionally, and further the financial institutions, commercial banks, funds, agencies, etc. later to be developed, would automatically abolish the present monopolistic situation of the OTP [National Savings Bank].

By the way an internal organisational change and decentralisation of the OTP would also directly contribute to the breaking of the monopoly. We could make progress in even two directions toward a multilateral, independent and responsible "popular banking system" that would provide attractive offers and would also undertake risks.

Insofar as the existing organisations are concerned the right of and responsibility for an independent business activity should in the beginning be granted only to the savings cooperatives and to the units of the OTP network that wish to become independent. (The units of both types of popular banks would pay, during the transition period, rent to the OTP center, the amount of which would be defined by competitive bidding. In case of deficit the state would assume responsibility for the indemnization of the customers, in other words it would vouch for the deposits). But after a period of grace all financial institutions that broke away from the OTP would be classified as regular financial enterprises.

After the decentralisation of the decision making spheres all former units of the OTP, which are capable of becoming independent, would be able to evolve new forms of savings, to broaden the scope of their active operations and to break into new areas.

We consider it important also to abolish the monopoly of the State Insurance.

In the area of insurance we attribute great importance to a voluntary, individual and so-called complementary social security system and the creation and broadening of such a system. The licensing and supporting of such insurance forms may bring about the following advantages:

--Relatively large population sectors may acquire realistic ability to individually ward off--depending on their earnings--the negative effects of the decline in their income at a later date.

--If they have such a possibility, for many this might become a stimulus for earning more and thereby striving toward greater financial independence in the future. This presumably will prod people to spontaneously undertake greater efforts.

--The dissemination of individual and differentiated complementary insurance will elicit a (voluntary) decline in the absolute size of income gaps, even without the introduction of a progressive income tax.

--An individual share in social security is advantageous not only to the individual but also collectively. It would discharge the state budget which is already overburdened by the cost of social security, since it would alleviate to some extent the pressure in favor of an increase in such expenditures. (For the treasury in many countries of the world is better business to subsidize individual social security instead of assuming full responsibility for it).

We expect a lot from the tripartite development of the financial institutions which are closely related to the public particularly in two respects:

1. In the course of development the population would acquire access to free alternatives among various modalities of complementary incomes.

2. We want to stimulate by the competition of financial institutions for savings and deposits a participation in a social security system of satisfactory quality, that the general public, however, can less and less afford, and on the other hand to strengthen the population's willingness to save and thereby to augment the total amount of deposits by voluntary contributions.

A development of the financial institution system is only justified if the principles of the macroeconomic system reform as a whole can simultaneously be advanced. These entail--through development of goods and money conditions--an unequivocal and candid definition, acceptance and control of the rights, obligations and responsibilities. Thus a development of the banking system should lead to the evolution of independent and responsible financial institutions, which also promote interest in profits. The expenses involved in this are probably not negligible, but they are most likely much less than the losses that our economy continuously suffers as a consequence of the lack of change.

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(The Authors).

## CREATING MATERIAL INCENTIVE FOR WORKERS

Budapest MAGYAR MENZET in Hungarian 10 Apr 84 p 7

[Article by Dr Laszlo Kotz, member of the economic policy work committee of the National Council of the Patriotic People's Front: "How Can We Create the Property Owners' Interests in Workers?"]

[Text] In more developed societies the performance of work takes place not exclusively but generally in the framework of a work relationship, for wages. In the work relationship it is the interest of the employee to get more and more wages for less and less work while the interest of the employer is just the opposite. So the tug of war is unceasing. In concrete cases the opposing interests balance out according to the power relationships, certain ratios are established in society as a whole and a sort of wage system develops. It is customary to call the interests reflected by the wage system a wage interest system.

### An Interdependent Value System

In socialist societies the work relationship basically ties the workers to socialist organizations--enterprises, institutions, offices. In these the employer functions of the state or other communities are provided by persons who are themselves employees. For this reason the state is forced to keep the wage interest system within limits so that a harmony between wages and performance can be maintained at least at the social level. The forced limitations also cause unfavorable phenomena--especially in the enterprises where performance can be measured directly--which manifest themselves primarily in holding back performance, conservation of capacity and lack of interest or indifference toward the new. We have tried to resolve these conflicts with various methods--with awards and premiums tied to concrete tasks and, since 1968, with a so-called profit interest system linked to the development of enterprise profit. In the beginning the profit interest system liberated creative energies but--it appears--this has more or less exhausted itself by now.

(Among the causes we need note only that the interdependencies between the profit of the enterprise and the result of the work of the community are not always unambiguous. Enterprise profit--in essence--is the balance of the annual receipts and expenditures of the enterprise. But some of the prices and

costs are fictive--set prices, fees, tariffs, state supports and withdrawals--so it is difficult to regard profit as a true economic value.)

So a new path must be sought. The wage interest system connected with the work relationship must necessarily be maintained, but the frequent barriers to it must be lifted so that it should be in harmony with the interests of society and so that it will make valuable performance a source of supplementary income in those cases where it is possible to speak of an actual increase in enterprise property. (We call an interest system linked to changes in the value of property a property interest system; and this requires a logical, interdependent economic value system.)

The conditions for management are gradually changing. The changes are indicated by the increasing flexibility of the price system and of rate of exchange and interest policy, by the increase in enterprise independence and by the unfolding of competitive market conditions. One should also list here the realistic evaluation of every element of social property (fixed assets, stock-piles, other property values) and the following of changes in value. Only in possession of a realistic economic value system will it be possible for the enterprises to give a trustworthy account of how they have fulfilled their obligations connected with preserving and enhancing the value of the social property entrusted to them and of the accomplishments of the working collective.

The basis for a property interest system, the point at which comparisons can be made, is the economic value of the enterprise property as determined at some point in time. If the enterprise property is more at a later point in time than it was earlier then we talk of a property profit. (Thus it is not profit in general but rather property profit which can give orientation and it is this which the enterprise should strive to attain.) If we compare the value of the enterprise property and the value of the property profit then the ratio of these will show what percent of profit was made per forint of property (property profit rate). The property profit rate makes it possible to compare the performance of enterprises with different amounts of property working in different branches; so it can be made into a good economic value system--naturally supplemented with information of other types. The property profit rate could become a compass guiding the flow of social capital; one should invest social property where the profit rate is higher.

#### Incentive for Performance

If we have such a value system then how can we make the workers interested in using their energy in the interest of keeping the enterprise property profit rate at a high level, not holding back their efforts but developing their abilities constantly without limitation? Of the possible solutions here is one which might be developed further depending on the concrete circumstances.

Let us presume that the profit rate of the enterprise in a given year is 16 percent. If in this same year the rate of interest (interest on deposits or average profit of the branch) was 10 percent then the profit corresponding to this 10 percent is due to whatever organization is managing the state property

(bank or trust). But that part of the profit corresponding to the remaining 6 percent should be shared by the organization managing the state property and the social insurance organization. (The social insurance organization should participate in dividing up the results of expanded reproduction because in this way we might start a process of making social insurance self-sustaining and thus gradually it might be possible to create tangible interdependencies between the efficiency of management as a whole and the level of social insurance services.)

But the part due to the social insurance organization should remain in the hands of the enterprise, thus increasing enterprise property. Thus, depending on the circumstances, all of the extra profit (6 percent according to our example) or some part of it (3-4 percent) should belong to the social insurance organization, which will manage with it in accordance with what follows. In the wake of such a distribution the situation would be that two owners will be interested in the enterprise property--the state and the social insurance organization.

#### Majority and Minority

If, after this, the enterprise collective should have rights--similar to usufructuary rights--for 5-10 years over the social insurance organization's part of the property thus generated, then it would be possible to create a long term property interest system for the enterprise collective. This property interest is also a property right, the property of the collective. If the collective should have property in this way then it would figure as one of the owners of enterprise property. And the co-owners would have identical interests in maintaining and increasing the value of the common property. Since their interests point in the same direction, the interest conflicts which can be demonstrated in the work relationship--between the enterprise worker collective and the owners of the enterprise--might be mitigated, becoming a common interest in the relationships one with another of the collective and state as co-owners, and other co-owners. Thus it would be possible to create, via collective property, a close community of interest between the work organization of the collective and the organization of the owners.

According to the hypothesis described above the profit deriving from that part of the property falling to the social insurance organization would belong to the collective for 5-10 years. If the right thus arising were divided among the members of the collective then for 5-10 years the members of the collective would have a similar right to the profit at all times. We should call this the shares right. Securities (shares notes) might be issued on these shares rights which could be sold, inherited or discounted within the time of their validity.

If the values were determined correctly then--as a supplement to the wage interest system--the shares rights established on the basis of collective property rights could exercise an effect on management as a personal interest also. The total shares would develop according to the annual profit rate of the enterprise on the basis of the nominal value of the share notes. In the

event that the enterprise property decreased the shares might be completely eliminated.

A system of long-range community interest and a system of risk responsibility might develop. The rights arising and being combined on the basis of this method might represent a significant property value for the members, but this would not lead to concentrating property or enterprise decision rights in the hands of certain people.

Finally, we might reach the point where three organizations would have an interest in enterprise property--the state, the social insurance organization and the enterprise collective (which is the organization of the enterprise workers). The co-owners share jointly in the yield of the common property and would bear jointly--in proportion of their interest--the losses. If the enterprise property develops from the common interest of several organs then the rules for common property must be applied not only in sharing the profit and bearing the losses but also in the exercise of decision rights.

A majority principle must be realized in economic life among the co-owners of common property in the naming and removal of the director of the enterprise and in his exercise of rights as employer. Similarly, the majority decides about decreasing or increasing the common property or about changing the property ratios. But there must be an institutional provision for protecting the interests of the minority. And if the minority exercises these rights--on the basis of authorization by the majority--then there must be an institutional provision for protecting the interests of the majority. (This might happen if the collective at an electronics enterprise, being in the minority, was better informed in personnel and economic questions than the bank organization representing the majority.) In any case, the forms of economic association well proven in domestic practice reflect these organizational principles also.

The director of the enterprise, as representative of the owners, can take action in all questions of using the common property, thus the enterprise property. For example, he would decide about the fate of amortization serving to replace a reduction in the value of the property and whether to invest in his own enterprise or elsewhere where the development of the profit rate was more favorable. This solution might force a useful regrouping of social property on the basis of concrete considerations, putting the consequences on those who make the decisions.

Forms and conditions clearly reflecting interests will make interest and responsibility unambiguous, and the spheres of decision authority as well. The idea outlined here can be regarded as only one of several versions for creating management based on property interest. But on the basis of this it may be possible to get a picture of the direction in which solutions should be sought.

SITUATION OF AGRICULTURAL EXPORTS DESCRIBED

Budapest HETI VILAGGAZDASAG in Hungarian No 15, 14 Apr 84 pp 34-37

[Interview with Janos Marton, executive director of the Agrarian Economic Research Institute, by Akos Simon, reporter of the paper [HVG]: "Squeezed Out, Deboned, Worn Out--Interview on the Hungarian Agricultural Export"]

[Text] It is a generally accepted view that agricultural products, foods can always be sold abroad. In general, Hungarian agriculture and the food industry do fulfill their quota of the national economic plan although both the foreign and the domestic economic conditions are getting gradually worse. With respect to the country, many signs indicate that it would be high time to end the nearly half-a-decade-long practice according to which, after the central curtailments, increasingly less money is left to the large agricultural enterprises that would enable Hungary to continue having a chance in offering its agricultural and food industrial products on their international markets. Janos Marton (62 years old), executive director of the Agrarian Economic Research Institute, was questioned on the export possibilities of the major domestic agricultural products and on the obstacles to such export, and also on the state of preparedness of Hungarian agriculture in view of the fundamental changes to be expected on the international agrarian market.

[Question] In the rather general judgment of domestic public opinion, agriculture is the only truly successful branch of the Hungarian economy with respect to both domestic and foreign economy. Staying with the latter; last year, agriculture produced 85 billion forints in foreign exchange income for the Hungarian economy and this was the primary source by which the industrial foreign trade deficit was successfully balanced. Are the long-range prospects of Hungarian agricultural products also good on their world markets?

[Answer] First of all, let us point out that we can be proud of the results achieved by Hungarian agriculture, but we are merely deceiving ourselves if we fail to mention the factors appearing on the long-run on the international markets which put us at a disadvantage. First of all, we have competitors who have a nearly inexhaustible amount of the most important production tool: the soil. I am referring to the United States, Canada, Argentina or Australia. Their vast, exploitable land alone already provides the possibility for extensive agricultural production demanding very little investment, a possibility to be satisfied with relatively low grain yields, approximately about half of what we harvest in Hungary. But examples can also be cited from livestock

raising. In the United States or in Australia, the feed costs of beef or mutton, produced by open-air rearing on pastures, are one-fourth of the costs in Hungary. In Hungary, stabled raising is the important mode of production but the feed cost fraction in the cost of the meat is three times higher than the costs of stabled raising in the other two countries. Secondly: the labor-intensive agricultural and food industrial products on the international market are increasingly coming from developing countries where the wages or the income of agricultural workers are a fraction of the Hungarian incomes. Thus, only those of our labor-intensive products are marketable which provide some excess in quality--including processing--compared with the competing products, or where we are able to exploit the lower transportation costs, the fact that we are located in the heart of Europe, near to the large buyer's markets. And thirdly: the majority of our competitors do not necessarily defeat us because they offer better quality or transportation conditions, but simply because their governments strongly support agriculture and 20-40 percent of the production costs are in effect assumed by the state. The overwhelming majority of West Europe belongs in this category. The Common Market producers receive state support in an open and clandestine form the like of which our agriculture does not even dare to dream of.

[Question] Is this to be interpreted that, while for decades before the income from agriculture made--at least in part--the development of industry possible, it is time now for industry to pay off?

[Answer] Well, this is not yet the issue. In my opinion, it will take a very long time for industry to reach the level of development at which, as a matter of the national interest, it could support agriculture. Although this is precisely the case with every serious competitor of ours. Our industry is not even capable of producing decent packing materials for our food industrial products, we are forced to import them. And the fact that the import possibilities have shrunk in recent years, puts a brake on exports, also including agrarian exports. Furthermore, the Hungarian machine industry makes only very modest contributions to the expansion of our farm machinery pool, and the list could be continued.

[Question] It seems obvious that Hungarian agriculture must respond to the changing external conditions by reshaping its product structure. But don't you find it disquieting that the Hungarian large-scale industrial agriculture is increasingly being converted to grain production?

[Answer] I am not disturbed. Hungarian grain is competitive on the world market and it will probably also remain so on the longer range. We supply the grain to our neighbors because it is obvious that the distance between Nagykanizsa and Kiev or between the Kisalföld and Berlin is even less than between Minnesota and New York. This proximity is a great advantage in the case of such a transport-demanding product as grain cereals. The Soviet Union is the largest grain buying market on our continent. Let us consider, for example, how many times the U.S. or Argentinian wheat has to be transferred from one conveyance to another before it reaches the Soviet consumer. We, on the other hand, in part save on transfers, storage and transportation and, if we consider only the energy expenditures, the disadvantage of Hungarian agriculture derived from its energy consumption--because of the higher energy demand

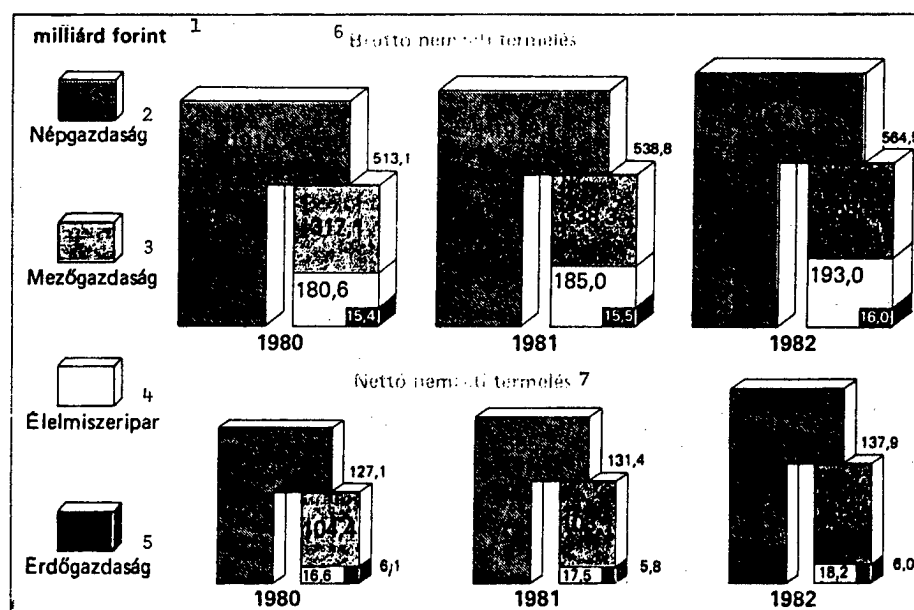
The Structure of Hungarian Foreign Trade (rounded to billion forints)\*

| Termékcsoport 1                                                        | 2 Rubel elszámolás |                |                |                | 3 Nem rubel elszámolás |                |                |              |
|------------------------------------------------------------------------|--------------------|----------------|----------------|----------------|------------------------|----------------|----------------|--------------|
|                                                                        | 1980               | 1981           | 1982           | 1983           | 1980                   | 1981           | 1982           | 1983         |
| 4 Kohászati termékek<br>behozatal a<br>kivitel b                       | 11,3<br>3,6        | 12,3<br>4,4    | 11<br>4,1      | 12,5<br>5,1    | 14<br>20,3             | 12,3<br>16,5   | 11,9<br>15,6   | 12,5<br>17,4 |
| 5 Gépipari termékek<br>behozatal<br>kivitel                            | 56,5<br>71,8       | 53<br>72,7     | 58,4<br>78,3   | 65,1<br>90,1   | 41,6<br>30,4           | 47,4<br>33,1   | 47,9<br>39,5   | 47,6<br>40,2 |
| 6 Vegyipari, gumi-<br>és műanyagipari termékek<br>behozatal<br>kivitel | 18,2<br>11,0       | 20<br>14,1     | 22,3<br>15,6   | 24,5<br>18,5   | 45,2<br>25,7           | 44,1<br>29     | 41,7<br>26,9   | 46,8<br>34,9 |
| 7 Egyéb nehézipari termékek<br>behozatal<br>kivitel                    | 34,0<br>2,4        | 39,0<br>3,0    | 46,4<br>2,9    | 51,5<br>3      | 11,1<br>9,9            | 12,2<br>7,6    | 20,8<br>17,2   | 29,8<br>26   |
| 8 Könnyűipari termékek<br>behozatal<br>kivitel                         | 9,9<br>13,3        | 10,9<br>14,8   | 11,6<br>16,4   | 12,3<br>15,9   | 23,2<br>21,9           | 24<br>19,3     | 21,2<br>17,9   | 25,0<br>23,8 |
| 9 Egyéb ipari termékek<br>behozatal<br>kivitel                         | 0,7<br>0,4         | 0,8<br>0,6     | 0,8<br>0,9     | 1<br>1,0       | 0,8<br>1,4             | 1<br>1,6       | 0,9<br>1,0     | 1,1<br>0,9   |
| 10 Építőipari termékek<br>behozatal<br>kivitel                         | 1,3<br>1,2         | 1,3<br>1,6     | 2<br>1,3       | 2<br>1,5       | 1,5<br>1,4             | 2,6<br>1,8     | 1,4<br>2,2     | 1,5<br>4,2   |
| 11 Élelmiszeripari termékek<br>behozatal<br>kivitel                    | 3,1<br>11,6        | 5,1<br>13,4    | 4,9<br>14,5    | 3,3<br>16,0    | 14,5<br>29,5           | 16,7<br>33,9   | 14,7<br>37,4   | 20,8<br>41,3 |
| 12 Ebből:<br>húsupari termékek<br>behozatal<br>kivitel                 | 0,2<br>1,1         | 0,2<br>1,0     | 0,2<br>1,1     | 0,2<br>1,3     | 4,1<br>11,4            | 4<br>12,2      | 4,4<br>14,1    | 4,8<br>15,1  |
| 13 baromfi és tojásfeldolgozó<br>ipari termékek<br>kivitel             | 0,8                | 1,0            | 1,3            | 1,8            | 6,8                    | 8,7            | 9,1            | 9,2          |
| 14 tartósítási termékek<br>behozatal<br>kivitel                        | 0,8<br>4,9         | 0,8<br>5,7     | 0,9<br>5,6     | 0,9<br>6,2     | 1,8<br>4               | 1,5<br>3,9     | 1,1<br>4,6     | 1,5<br>5,3   |
| 15 növényolajipari termékek<br>behozatal<br>kivitel                    | 0<br>0,1           | 0<br>0,2       | 0<br>0,3       | 0<br>0,3       | 6,7<br>2               | 7,5<br>2,7     | 6,2<br>3,7     | 10,2<br>5,1  |
| 16 Mezőgazdasági termékek<br>behozatal<br>kivitel                      | 1,2<br>5,5         | 1,3<br>7       | 1,4<br>7,5     | 1,6<br>6,5     | 11,5<br>19,6           | 10,3<br>24,8   | 5,7<br>25,3    | 5,9<br>25,2  |
| 17 ÁRUCSERE ÖSSZESEN:<br>behozatal<br>kivitel                          | 136,4<br>120,8     | 143,6<br>131,6 | 158,6<br>141,4 | 173,9<br>160,1 | 163,5<br>160,2         | 170,6<br>167,8 | 166,2<br>183,1 | 191,1<br>214 |
| 18 egyenleg                                                            | -15,6              | -12            | -17,2          | -13,8          | -3,3                   | -2,8           | +16,9          | +22,9        |

Forrás: Központi Statisztikai Hivatal. \*számított fuvar költségek levonásával 19

Key:

- |                                                                                  |                                           |
|----------------------------------------------------------------------------------|-------------------------------------------|
| 1. Group of products                                                             | 12. Of these:                             |
| 2. Ruble exchange                                                                | Meat industrial products                  |
| 3. Non-ruble exchange                                                            | 13. Fowl and egg processing               |
| 4. Metallurgical products                                                        | industrial products                       |
| 5. Machine industrial products                                                   | 14. Canning industrial products           |
| 6. Chemical industrial, rubber- and<br>synthetic material-industrial<br>products | 15. Vegetable oil industrial products     |
| 7. Other heavy industrial products                                               | 16. Agricultural products                 |
| 8. Light industrial products                                                     | 17. Total exchange of commodities         |
| 9. Other industrial products                                                     | 18. Balance                               |
| 10. Construction industrial products                                             | 19. Source: Central Bureau of Statistics  |
| 11. Food industrial products                                                     | *Calculated transport costs<br>subtracted |
|                                                                                  | a. imports                                |
|                                                                                  | b. exports                                |



Share of Agriculture, the Food Industry and the Forest Industry in the Gross and Net National Product in 1982 (in 1981 Prices, billion forints).

Source: Ministry of Agriculture and Food Industry, Center of Statistics and Economic Analysis

Key:

- |                     |                           |
|---------------------|---------------------------|
| 1. Billion forints  | 5. Forest industry        |
| 2. National economy | 6. Gross national product |
| 3. Agriculture      | 7. Net national product   |
| 4. Food industry    |                           |

[Question] These only support the general complaint of the domestic agricultural specialists that current Hungarian grain production is excessively energy demanding.

[Answer] This is natural to a certain degree. Let us just use the United States as an example. The average yield per hectare from bread grains is 20-30 metric centner there while it is 40-50 metric centner in Hungary; however, the Hungarian producer needs to make considerably higher investments to achieve it. In the United States, Australia and Canada, only a few farmers use the production systems customary here, the strictly defined technology of soil cultivation, chemical fertilizers, plant protection and use of machines. It is a measure of the mechanization, however, that the machine capital per ton of grain is produced is 5-10-fold higher in the Western countries than in Hungary. Of course, it must also be added that, on the average, 20 times more capital "in addition to the soil"—buildings, machines, installations, working capital—is available to an American agricultural worker than in Hungary, and a 10-fold larger land area. It is clear that the productivity of human labor is much higher there than in Hungary but not by as much as the income of an agricultural worker there exceeds the income of one in Hungary. Under such conditions, it is worthwhile to produce grain in Hungary even for the current, depressed grain prices.

Enterprisal Income and Earnings in Agriculture  
(billion forints, rounded)

|                                                         | 1 Állami gazdaságok, kombinátok |      |      |      | 2 Mezőgazdasági termelő-szövetkezetek |      |      |      |
|---------------------------------------------------------|---------------------------------|------|------|------|---------------------------------------|------|------|------|
|                                                         | 1970                            | 1980 | 1981 | 1982 | 1970                                  | 1980 | 1981 | 1982 |
| 3 Bruttó jövedelem                                      | 5,2                             | 10,5 | 12,0 | 12,4 | 21,8                                  | 40,7 | 47,2 | 52,3 |
| 4 Munkabér, munkadíj                                    | 3,8                             | 6,6  | 7,0  | 7,5  | 15,5                                  | 26,0 | 29,0 | 32,0 |
| 5 Eredmény                                              | 1,4                             | 3,9  | 5,0  | 4,9  | 6,3                                   | 14,7 | 18,2 | 20,3 |
| 6 Az eredményből kötelezettségi költségvetési vállalati | 0,6                             | 1,5  | 2,0  | 2,2  | 0,8                                   | 5,2  | 7,0  | 8,4  |
| 7 rendeltetésű eredmény                                 | 0,7                             | 2,5  | 3,0  | 2,7  | 6,1                                   | 9,5  | 11,2 | 11,9 |
| 8 Forrás: MÉM Statisztikai és Gazdaságelemző Központ    |                                 |      |      |      |                                       |      |      |      |

- Key: 1. State farm enterprises, combines  
2. Agricultural cooperatives  
3. Gross income  
4. Wages, production costs  
5. Earnings  
6. Budgetary obligations from earnings  
7. Earnings earmarked for the enterprise  
8. Source: Ministry of Agriculture and Food Industry, Center of Statistics and Economic Analysis

Growth Index of the More Important Balance Data  
for Large Agricultural Enterprises, Rounded (1970=100)

|                                                   | 1 Állami gazdaságok, kombinátok |      |      | 2 Mezőgazdasági termelő-szövetkezetek |      |      |
|---------------------------------------------------|---------------------------------|------|------|---------------------------------------|------|------|
|                                                   | 1980                            | 1981 | 1982 | 1980                                  | 1981 | 1982 |
| 3 Nyereség                                        | 252                             | 321  | 320  | 217                                   | 262  | 289  |
| 4 Veszteség                                       | 17                              | 5    | 123  | 105                                   | 70   | 55   |
| 5 Eredmény                                        | 272                             | 348  | 337  | 232                                   | 288  | 320  |
| 6 Munkabér, munkadíj                              | 175                             | 186  | 199  | 168                                   | 187  | 207  |
| 7 Vállalati rendeltetésű eredmény                 | 322                             | 389  | 348  | 156                                   | 184  | 196  |
| 8 Állami hozzájárulás*                            | 157                             | 148  | 179  | 186                                   | 191  | 191  |
| 9 Eredményt terhelő költségvetési kötelezettség** | 216                             | 301  | 325  | 669                                   | 910  | 1077 |
| 10 Egyéb költségvetési kötelezettség***           | 280                             | 299  | 360  | 265                                   | 304  | 352  |

- Key: 1. State farm enterprises, combines  
2. Agricultural cooperatives  
3. Gains  
4. Losses  
5. Earnings  
6. Wages, production costs  
7. Earnings earmarked for the enterprise  
8. State contribution\*  
9. Budgetary obligations from earnings\*\*  
10. Other obligations from earnings\*\*\*

\*Mostly refunds, producer and consumer price support, construction, repair and machine-price contribution

\*\*Mostly city, village taxes, gain and income tax, tax paid on production costs and interests

\*\*\*Primarily social insurance contribution, land tax, production and differential production tax, turnover tax, building tax

Source: Ministry of Agriculture and Food Industry, Center of Statistics and Economic Analysis

[Question] The mechanization of grain production had been solved while the same can hardly be said about vegetable and fruit production. Evidently this also is part of the reason why many large farm enterprises are increasing their grain fields at the expense of vegetable and fruit production.

[Answer] Hungarian agriculture was sentenced to being multibranch by its environmental circumstances. The transportation costs for vegetables and fruit are considerably higher than for grain; the smaller value requires a larger volume and, therefore, in marketing garden products abroad, our nearness to the buyer's markets could be important from the standpoint of competitiveness. It is regrettable, also for this reason, that we were just at the

beginning of modernization, making possible the growing, picking or processing of the fresh goods, when the scarcity of investments and the economic slowdown started. By that time, the technological development of plow land cultivation had already been completed and the technology of animal raising also had nearly reached the desirable level.

[Question] But in the absence of machines, there would be need for manual labor. The enterprises don't have enough of it either, they also need students and enlisted men for harvesting. Is it possible to talk about export orientation under such conditions?

[Answer] In the case of products requiring a caring hand and presence of mind, interest is the determinant factor. To this day no adequate solution could be found for it. It is not accidental that 60-70 percent of the apples grown by small farms is export quality while the ratio is reversed in the large enterprises. The producers would have to be made aware of the realities of the world market, and the state machinery should let them decide for themselves. On the other hand, the state should promote and support the establishment of "product rescue" capacities---I have in mind mostly apples---where sauce, juice or even alcohol would be produced from fruit which would spoil otherwise.

[Question] The opinion is often expressed that the situation will not change until the large enterprises become directly interested in exporting. Namely, currently the agricultural producers get almost no share at all from the export profits, they feel only the totally noneconomic coercion to export, and very much so.

[Answer] The outdated, giant export organizations must be quietly returned to their proper place. In my opinion, a large part of the products should be sold by the producers. Thereby export could be increased and production would be adapted to the foreign market demands.

[Question] In animal raising, the cooperation of the individual and large enterprisal producers on the one hand, and the buyer and marketing organizations on the other hand, seems to work more smoothly. At the same time, it seems as if the producers would still be unable to adapt flexibly to the demand.

[Answer] Here also, the producers should be forced to think in terms of the exporter. Of course, this is not easy because for a long time they have been relieved of the foreign market problems; it is true that, for a long time, they were even barred from the necessary market information. During the past 2 years, the flow of information to the producers has improved; it is greater now than during the previous 20 years combined.

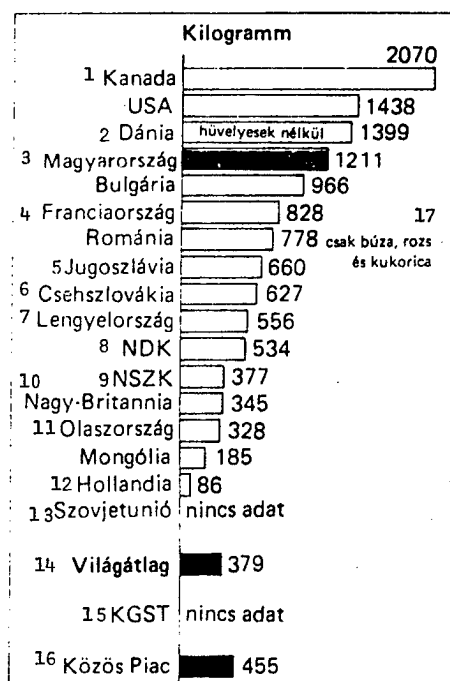
[Question] It could also have been caused by lack of information that, for instance, it has already been difficult for quite a while to sell chicken abroad while at home the goal was still to expand production, and it was also promoted by the price.

[Answer] If we fail to plan ahead while developing such a large-scope branch as chicken farming, then we could indeed come off badly. The production of

Hungarian chicken had already gained international recognition on the international market when Brazil appeared, for example, where no heating is needed to raise chickens and the labor costs are low. The secret of the overwhelming success of the Brazilians is that their production was developed under the control of Japanese capital: organization, transportation, trading, the use of computers to guide production, the special transport boat, the foreign salesmen are Japanese. In 1977, I had occasion to work at the Japanese institute where the Japanese specialists slated to go to Brazil were trained. In an, for me, astonishing manner, first of all they were taught two languages by their hosts: the Portuguese spoken in Brazil and Arabic. A few years later, when the Brazilian chicken started to flood the Middle East, I understood the reason for the language studies: from the very beginning, the Japanese have cast their nets to the Arabian chicken consumers.

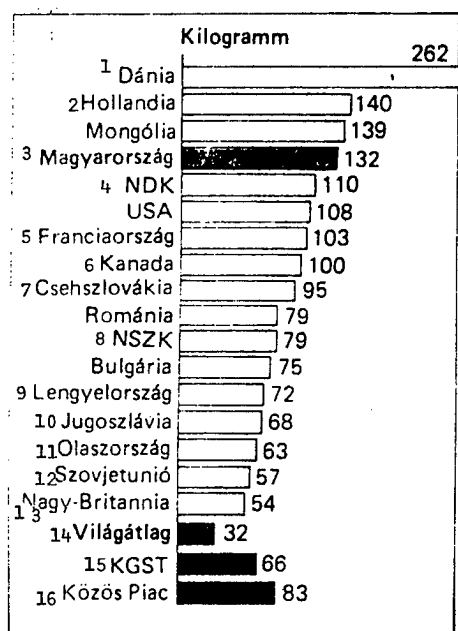
[Question] Thus, the total picture is illustrated as follows: although the Hungarian grain can be sold, the continual whittling down of costs is indispensable; the vegetable and fruit market--with some overstatement--is a function of the market conditions at any given time and, with the chicken-crush, it is also not easy to sell the beef and pork on the international market. What kind of long-range strategy would you consider favorable to the Hungarian agricultural export?

[Answer] Today, I see little that is concrete for the long run. Earlier, I pointed out the difficulties and now I will mention a few possibilities. Hungary should count on a fundamental change on the world market for foods and agricultural products, to be expected before the turn of the millennium. At the last session of the Club of Rome, held in Budapest, the U.S. delegate disclosed that, around the turn of the millennium, the currently largest agrarian exporter, the United States, will have to resort to agricultural imports as a result of population increase, deterioration of soil quality, environmental pollution and the relative scarcity of energy. On the other hand, Hungary could double its agricultural production precisely by that time. This would require, on the one hand, several costly investments and, on the other hand--perhaps most importantly--growth in intellectual capital and considerably more trained specialists in agricultural production and foreign trade than currently available. At the same time, we have to be prepared that the developing countries will start modernizing their agriculture. Even Kuwait, a country living under impossible--desert--environmental conditions, had established, at a high cost, at least a quasi-agriculture because, as soon as a country starts to be industrialized, it immediately also wants to increase its agriculture. To do this, they will import agricultural production machines, that is, we could become suppliers; however, Hungary is not prepared for it. In my opinion, it is already in the process of missing the boat: it can hardly appear as a serious exporter. Furthermore, in addition to machines, agriculture also needs other things: seeds for planting, chemical fertilizers, plant protective compounds and special knowledge. The GDR and Bulgaria, for example, are extending large efforts to also supply these to the developing countries. For the time being, we are merely milling over both aspects, how we should go about them at all.



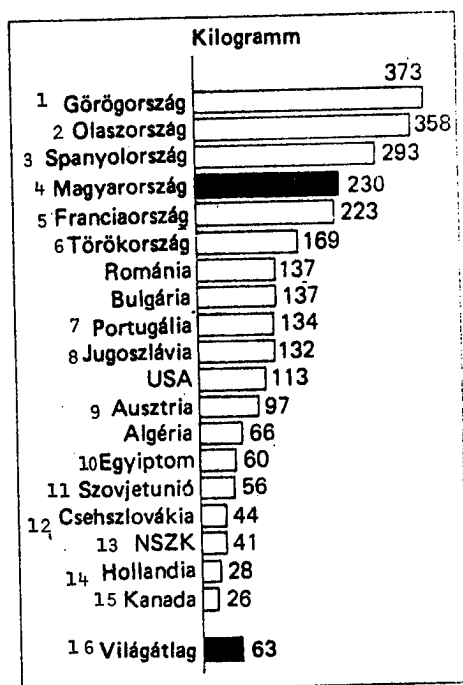
- Key:
1. Canada
  2. Denmark--without legumes
  3. Hungary
  4. France
  5. Yugoslavia
  6. Czechoslovakia
  7. Poland
  8. GDR
  9. FRG
  10. Great Britain
  11. Italy
  12. Netherlands
  13. Soviet Union--no data available
  14. World average
  15. CEMA--no data available
  16. Common market
  17. wheat, barley, corn only

Per Capita Grain and Leguminous Plant Production in Some Countries of the World, in 1981, in kilograms. Source: FAO [Food and Agriculture Organization of the United Nations]



- Key:
1. Denmark
  2. Netherlands
  3. Hungary
  4. GDR
  5. France
  6. Canada
  7. Czechoslovakia
  8. FRG
  9. Poland
  10. Yugoslavia
  11. Italy
  12. Soviet Union
  13. Great Britain
  14. World average
  15. CEMA
  16. Common market

Per Capita Meat Production in Some Countries of the World, in 1981, in kilograms. Source: FAO



Key:

1. Greece
2. Italy
3. Spain
4. Hungary
5. France
6. Turkey
7. Portugal
8. Yugoslavia
9. Austria
10. Egypt
11. Soviet Union
12. Czechoslovakia
13. FRG
14. Netherlands
15. Canada
16. World average

Per Capita Fruit Production in Some Countries of the World, in 1981, in kilograms. Source: FAO

2473

CSO: 2500/326

## PERFORMANCE OF HUNGARIAN AGRICULTURE VIEWED

Budapest HETI VILAGGAZDASAG in Hungarian No 15, 14 Apr 84 pp 36-37

[Article by Florian Mezes: "Esteemed Hungarian Agriculture"]

[Text] Last year, Hungarian agriculture failed to fulfill the national plans with respect to both production and sale projections. In its report--compiled from partial data by February--the KSH [Central Bureau of Statistics] estimated the expected results after the combined balance of the agricultural enterprises for last year gets completed. According to the report, in 1983, the gross production of agricultural goods--that is essentially the income derived from sales--was a few percentage points below the 1982 value and also the projected value. (In any given year, 1 percent of the gross agricultural production in Hungary is 2-3 billion Forints.) Last year's decline in the total product is composed of a few significant agricultural products which fell below the projected yields while other important and less important ones exceeded the projections.

The reasons for the decline and overproduction should presumably lie in the coincidence of unfavorable circumstances. Just to mention the domestic ones here: 1983 was a year of drought which retarded the growth especially of corn and sunflower, and of feed grain in general. As seen in the early report prepared by the Ministry of Finance also in February, for example, there was a 900,000 ton decline in corn production, that is about 18 percent less corn than in 1982. Last year, there was a 5-6 percent decrease in total grains harvested and thus also less feed grain went for exports than estimated early in the year.

Last year, however, there not only was drought in Hungary but also an agricultural technique and technology which could only be called more-or-less advanced and, as a result, technological discipline was also relatively loose in many places. (Primarily the low-income enterprises with unfavorable natural endowments suffer from the discontinuation of machine price supports. Namely, about one-fifth of the machine pool of Hungarian agriculture is completely outdated, morally and financially, that is, it has become completely amortized. A large part of these machines can be found precisely at those farm enterprises which are precisely the ones to find it difficult--if at all possible--to provide the extra money needed for the more frequent and more costly repair of these machines compared with the relatively new ones.) Because of the technical and technological conditions, the quality of numerous products will mostly

reach just the mean--another factor to decrease export or at least the export price. Moreover, the production costs are as high as if the product quality would be even better than good. Thirdly--although hardly least in importance--the peculiar phenomenon also can be ranked among the causes that agriculture--to a different degree at different places and with respect to different products--failed to fulfill certain central projections because the agricultural enterprises adapt to market demands in response to the central price and financial regulators (in plain language, they produce what is remunerative and they do not insist on products which result in losses).

Last year, according to an estimate by the KSH, mainly fruit and plant production, that is, the gross horticultural production turned out lower: fruit production by 11-12 percent compared with 1982 and 6-7 percent compared with last year's plan, while plant production and horticulture combined decreased by 9-10 and 5-6 percent, respectively. Similarly, compared with 1982, there was also a 10-11 percent decrease in the gross production of potato and vegetables. Although the KSH did not estimate how much shortfall this represents compared to the 1983 plan, but they did indeed estimate that in Hungary, last year, potato was grown on 16-17 percent fewer hectares and vegetables on about 11 percent fewer hectares than was projected by the national plan for last year. The main reason for it probably was that, for instance, apples, potatoes and onions were bought from the producers for an extremely low price, not nearly covering costs. In the case of some products, there has been such a discrepancy between the low purchase price offered by "Zoldert" and the selling price of "Zoldert" to the consumers--as much as 100-500 percent--that even seasoned producers were dissuaded from growing them.

In contrast to the expectations in the plan, there was a further decrease in the area planted with corn (many agricultural enterprises still produce at a loss because of the fixed delivery price); on the other hand, the wheat planting area increased in comparison with both the 1982 and the projected figures, and the nearly 4.4 tons per hectare average yield of wheat was also higher than in 1982. Wheat belongs among the few--and increasingly fewer--domestic agricultural products which can be sold for dollars in a nearly unlimited amount and at some profit. That is, these do not need to be sold at a loss abroad in order to increase the foreign currency income, as is the case with quite a few agricultural products. Of course, in addition to wheat, there are still other Hungarian agricultural products which can be exported at a gain. But domestic enterprises realize merely a total of 1 billion Forints in profits directly from export while their net--cost deducted--income from sales is more than 300 billion Forints. Thus, their direct incentives toward export cannot be called excessive.

In spite of the increased yield in wheat, because of the drought among others, in the final analysis, the tonnage of grains sold abroad in 1983 was 13-14 percent less than in the previous year and 28-29 percent less than the projected amount, according to the KSH report.

With respect to animal raising, the 1983 national economic plan called for an increase in raising cattle and sheep, and a decrease in raising swine and fowl. Last year, as revealed in the early report by the Ministry of Finance, there was a 2 percent decrease in the domestic cattle stock; the decrease was 2.5

percent in the farm cooperatives and 5.5 percent among the houseplot farmers. With reason: According to the KSH estimates, last year, the export of beef cattle and calves increased by about 7 percent compared with 1982 and by 18 percent compared to the plan. Meanwhile, there was an additional increase in the weight of meat animals indicating that feed utilization was lowered, raising the costs of meat production. Exports of sheep for meat were also higher last year than in 1982 and the projections in last year's plan. Therefore, the sheep stock also diminished; 40,000 breeding females were also slaughtered thereby about decimating the progenies to be exported this year. Swine raising increased its product by 7 percent last year and, in the estimation of the KSH, although there were 8-9 percent fewer tons of meat swine sold abroad than in 1982, this was still 15-16 percent more than the planned quality. There was also more fowl sold abroad than projected by the planners.

In summary--as seen in the KSH and Ministry of Finance reports--the sale of agricultural products and food products abroad failed to reach the projected income for last year (the quantity of both imports and exports was increased by 1 percent). In terms of money, last year there were more agricultural and food products sold for rubles, and about the same amount sold for hard currency as in 1982. Last year, the foreign trade assets in agricultural and food products, converted to Forints, were about 59 billion, that is, the Hungarian products sold abroad fetched this much more than the costs of agricultural and food industrial products imported from abroad. There was an increase in ruble assets and there was a decrease in the nonruble export assets compared to both 1982 and the plan.

2473

CSO: 2500/326

## BAKA URGES ECONOMICS SOCIETY TO WORK HARDER FOR REFORM

Warsaw RZECZPOSPOLITA in Polish 6 Apr 84 pp 1, 5

[Article by Kos: "This Year Is a Test for the Reform and for Economists"]

[Text] Did 1983 work in favor of reform? Are forecasts for 1984 satisfactory? Wladyslaw Baka, government plenipotentiary on matters of economic reform, began his talk on the 5th of this month with these questions during a meeting with representatives of PTE [Polish Economic Society] circles of enterprises and consultants of economic reform.

The presiding officer, Prof Tomasz Afeltowicz, president of the PTE, stated in his introduction that on the basis of an analysis of the economic situation in 1983 which was made by the Planning Commission attached to the Council of Ministers an appraisal can be made this year of the conditions in which the country will be moving toward stabilization. It will be a difficult year on account of a progressive reduction in capital affecting tangible property, a difficult situation in the labor market, and because there has only been a little progress in restructuring the economy. The decisive factors are: a difficult financial situation related to the foreign trade balance, disappointing agricultural forecasts, too little progress in areas concerned with the realization of programs of economy and fighting inflation, as well as in the field of improving economic efficiency.

During the discussion, the significance of the reform's social basis was mentioned, as well as the danger resulting from attempts to limit employee self-government. Other dangers were also mentioned: the shortage of mechanisms for stimulating technological progress and the delay in making certain decisions. Attention was paid to the opportunity that restructuring of the system of wages provides enterprises. "The law on principles for determining wages is a test for the reform and for managers of enterprises," stated Prof Stanislaw Borkowska of the University of Lodz. "With so much freedom in the area of wage control, there is still a need for central mechanisms, in the way of rating work, to manage these principles."

Minister Baka stated in his presentation that the president of the PTE presented too gloomy a picture of the conditions in which the reform functions. "The reform is providing ever greater results. Many factors

can be noted in the results of 1983 which tend to be optimistic. In spite of import restrictions, tasks entered in the CPR [annual central plan] were surpassed significantly, a condition which would have been impossible without the stimulating effect of the reform. Processes for technical improvement in employment have been begun. In addition, last year was the first year in which there was an important decrease in materials consumption. Also, we are seeing the first signs of improvements in quality and surpassed plans in the dynamics of export. Discipline has improved. The results are still far from satisfactory but the positive elements should not be forgotten. There are fewer and fewer occurrences of immobility and expectation; a definite change has occurred in the mentality of the management cadre. It is my opinion that a positive process has been begun and that it must be strengthened further," the speaker said. A similar attitude also dominated the National Conference of PZPR delegates.

The realization of established goals in 1984--improved satisfaction of social needs, an improvement in income as well as strengthening stability in the marketplace--will be possible if there is improvement in the area of efficient economic management. A policy of tight money will appear painful to some enterprises. Conflicts that arise must be brought out into the open and solved in view of the entire society. There can be no surrender to demands for individual exemptions for enterprises.

The current year will be a year of stabilization and a return of real meaning to economic groups. That is why Prof Baka appealed to the members of PTE for an increase in their activity in public and in their undertakings.

12491

CSO: 2600/919

TASK FORCE DEBATES REFORM IMPACT ON SCIENCE, TECHNOLOGY

Warsaw TRYBUNA LUDU in Polish 12 Apr 84 p 2

[Article by PAP: "Conditions for Beginning Technological Progress"]

[Text] On the 11th of this month, a meeting of representatives from the scientific and technological communities was organized in the offices of the Council of Ministers with Prof Wladyslaw Baka, the government's plenipotentiary for matters on economic reform, and the Presidium of Task Force XI of the Commission on Reform Matters. The subject of the meeting was stimulating technological progress under the conditions of economic reform.

The participants in the meeting were introduced to an extensive study constituting a survey of precise instruments for reform for influencing technological progress. In addition, the legal situation as of the beginning of this year was taken into account, because that is when many new or modified solutions were put into effect as a result of the document "Ways To Strengthen the Principles and Improve the Efficiency of the Mechanisms of the Economic Reform as of 1984."

At the same time, the study stressed that suitable instruments for influencing technological progress were found in the solutions for reform from the very beginning. The still short period of time since the introduction of reform does not allow us to make a full and explicit appraisal of the impact of these instruments.

Addressing the participants at the meeting, W. Baka emphasized that in appraising the reform mechanisms from the point of view of their influence on technological progress, the present legal situation in this area should be taken into consideration. An objective analysis of these solutions is needed as well as an indication of possible shortcomings or errors; but, at the same time, it is necessary to take into account the fact that our knowledge of the subject of prospects which the reform creates in the sphere of technological progress is still not complete. The spreading of this knowledge still leaves much to be desired.

During the discussion it was noted that at present, especially after modifications were made to the reform, prospects for an offensive scientific and technological development have appeared and that there are solutions that are favorable to innovation within the mechanism of the reform. At the same time, however, a great deal of attention was paid to financing technological progress, to legislative delays (a new law on institutes, academic degrees and titles, etc., is lacking), and the lack of decisionmaking in the area of central control of technological progress.

There was a detailed discussion on impediments to the work of research institutes and why enterprises were disinterested in technological progress and, also, why they are occupied with overcoming current technological difficulties and rarely with long-range developments.

12491

CSO: 2600/919

PLANNING COMMISSION REVIEWS 1985 GOVERNMENT MANDATED PROJECTS

Warsaw RZECZPOSPOLITA in Polish 25 Apr 84 pp 1, 2

[PAP report; material enclosed in slantlines printed in boldface]

[Text] (C). /On 24 April, deliberations of the Council of Ministers Planning Commission Presidium were held regarding proposals on government-ordered investments to be implemented in 1985. Defining such investments is one of the essential elements of work on the Central Yearly Plan for 1985. As established by the National Conference of PZPR Delegates, this work will be stepped up considerably./

Government orders for investments were introduced last year for the first time. Their purpose is to step up the implementation of projects that are vital to economic and social interests. This year, 20 central investments and 33 enterprise and water reclamation investments were included in the system. They received procurement guarantees for fuel, raw materials and fabricated materials.

In some cases, wage preferences are also used in order to ensure that investments are executed. Suggestions drawn from previous practice will aid in the adoption of provisions for streamlining the operation of the producer goods procurement system and the system of setting up contracts between consignees and producers.

/The proposals of government orders for 1985 investments were outlined following consultation with construction representatives and investor founding organs. Choices were made based on an analysis of the stage to which they had progressed, planned deadlines for the completion of work, anticipated results and the potential for receiving producer goods./

/Preliminary proposals showed that the list of government-ordered investments for this year will be expanded somewhat for 1985./ Efforts toward concretizing investment proposals will continue through the end of May. The final list of these important projects will be submitted to the Council of Ministers for its decision.

MORE FIRMS POLLED FOR VIEWS ON MATERIALS RATIONING SYSTEM

Warsaw ZYCIE GOSPODARCZE in Polish No 14, 1 Apr 84 p 9

[Article by M.: "Sick Material Economy"]

[Text] The Economic Organizations Club of the Warsaw Section of the PTE [Polish Economic Society] in February carried out a straw poll among the several scores of participants at a meeting which represented 41 industrial enterprises. They were asked, among other questions, the following: Did the principles of supplying raw and other materials, effective in 1983, conform with the assumptions of the reform? Have the changes introduced in 1984 assured this conformity to a greater degree? Has the elimination of the distribution of raw and other materials been felt sufficiently strongly? Has the curtailment of the obligatory intervention been felt sufficiently strongly? Has the limiting of preferential supplies to crucial socioeconomic goals been felt sufficiently strongly? Has the freedom of selling and purchasing products and goods increased in relation to 1983?

Three-quarters of those polled indicated that the principles of supplying raw and other materials effective in 1983 did not conform with the assumptions of the introduced economic reform, and 25 percent believed that they did conform with the reform principles.

Nor was the elimination of the distribution of raw and other materials felt very strongly--according to 85 percent of those polled; the other 15 percent felt the introduced changes. On the other hand, the curtailment of obligatory intervention was felt to a greater degree, according to 25 percent of those polled. Seventy-five percent, however, responded negatively.

In the opinion of 40 percent of those polled, the preferential treatment in supplies has been limited to crucial socioeconomic goals; 60 percent were of a different opinion. Eighty-five percent asserted that in relation to 1983, the freedom for selling and purchasing products and goods did not increase.

From the answers to the remaining questions it can be concluded that the system of supplies effective in 1983 promoted a quantitative increase of sales in the opinion of 5 percent of those polled, contributed to savings of raw and other materials according to 5 percent, worsened the supply situation according to 30 percent, increased management efficiency according to 15 percent, and contributed to the achievement of the planned profit according to 20 percent. In none of the enterprises, however, did the system have a favorable impact on the increase of productivity; on the contrary, it lowered it, by creating tie-ups.

12270

CSO: 2600/859

PLANNING COMMISSION SEEKS WAYS TO BOOST CONSUMER GOODS OUTPUT

Warsaw RZECZPOSPOLITA in Polish 27 Apr 84 pp 1, 2

[PAP report; material enclosed in slantlines printed in boldface]

[Text] (C). /Implementing the provisions of the 14th PZPR KC [Central Committee] Plenum aimed at ensuring an increase in the production of consumer goods at a rate exceeding the general increase in production, on 26 April the Planning Commission Presidium examined proposals for increasing the production of consumer goods during the current year that have been submitted by the ministries of the metallurgy and engineering industry, chemical and light industry and forestry and timber industry./ Participating in the meeting were representatives of the leadership of the ministries involved.

An appraisal was made of proposals involving the increase in production of articles four housekeeping, electrical engineering and electronic equipment, synthetic fibers and plastics, agricultural chemicals, pharmaceuticals, rubber, textiles, clothing and footwear. Work on the materials submitted by the ministries will continue with a view to setting up concrete programs for increasing the production of consumer goods by taking advantage of available means.

Note was taken of the low level of use made of production capacities in enterprises producing consumer goods. Therefore, all the frequently submitted proposals for increasing investment outlays and producer goods import and for additional systems-type preferences and rate reductions must be accompanied by a more profound accounting of effectiveness and must be warranted economically. Since the assurance of an increase in the production of consumer goods at a rate exceeding general industrial production is one of the main factors in restoring market equilibrium and limiting inflation, particular attention will be devoted to these problems in work on the plan for 1985, as well as on the NPSG [National Socioeconomic Plan] draft plan for 1986-1990.

/The Planning Commission Presidium also examined the draft plan regarding the means of implementation of the Central Yearly Plan [CPR] for 1985./

In keeping with proposals made chiefly by enterprises that they be given sufficiently advance notice on the availability of basic means for implementing the plan, this will be submitted for approval by the Council of Ministers.

This draft plan adopts the principle of the stabilization of the economic system and its mechanisms and of limited changes in the height of parameters restricted only to the indispensable corrections that emanate from objective changes in management conditions. The scale of proposed changes in the field of funds for implementing the CPR for 1985 would be relatively small compared with what is currently obligatory. Their basic aim is to increase the production of consumer and export goods and to hasten structural changes and the attainment of economic stability.

Among other things, it was recognized that it is essential to stabilize rate reductions and preferences and, in some cases, to limit their size and scope and to focus them on the implementation of goals that are particularly important from the social and economic viewpoint. It was stressed that the means used for implementing the plan must be assigned directly to those units that are carrying out economic tasks, in order to ensure their more efficient utilization.

/The means for implementing the CPR for 1985 that were examined preliminarily by the Planning Commission will be the subject of further discussion and consultation./

8536

CSO: 2600/955

## NEW DATA ON PRODUCER GOOD INVENTORIES

Warsaw ZYCIE GOSPODARCZE in Polish No 15, 8 Apr 84 p 8

[Text] From data issued by the Institute of Materials Economy, it appears that among the so-called 24 most important goods supply for 1980-83 has decreased systematically. It is true that in a group of 17 products there was an increase of deliveries last year, but it has not achieved the level of 1980. A considerable deficit continues in supplying the economy with aluminum, natural rubber, cotton and polyester. On the other hand, supplies of copper, zinc, cement, particle board and untreated skins have increased.

Reserves in the economy also appear to be uneven. In 1981, there was an increase in reserves of working capital (materials, unfinished production, finished goods and other goods) by 11 billion zlotys. At the end of 1981, the value of these reserves exceeded 1.2 trillion zlotys. The increase in prices -- around 39 billion zlotys -- influenced their level. In the structure of reserves, 80 percent included production reserves and barely 20 percent consumer goods reserves.

In 1982, there was a considerable increase in supply prices, which caused an increase in the value of reserves by over 1 trillion zlotys. During this period, reserves of consumer articles increased to over 21 percent. On the other hand, no fundamental changes in the structure of production reserves were noted. The high level of material reserves and unfinished production continued to exist. In light of the rapidly developing supply-cooperative ties and the dramatic import restrictions, many enterprises have become hamsters despite their will and despite the actions of reform mechanisms limiting the gathering of excessive reserves. Therefore, a two to threefold increase in the reserve indicator has developed in many basic areas -- rolling, mill goods, steel pipes, electroenergy cables, cement, particle board, paper and cardboard.

A certain improvement was noted in the last year. A further dynamic growth in reserves of over 17 percent (data for the first three quarters of last year) has been observed. A positive phenomenon has been the increase in the breadth of reserves to 26.6 percent. Above all, this has occurred as a result of rebuilding reserves of consumer articles. A second positive aspect of this process has been the decline in the share of the two chief groups of production reserves -- materials and unfinished production.

## REDUCTIONS IN FORCE AT SHIPPING LINE

Warsaw ZYCIE GOSPODARCZE in Polish No 15, 8 Apr 84 p 9

[Text] When there is a shortage of people for work and employers lean toward criminals, plasterers, drivers, shopworkers, women at the post office, etc., there are few who are not disturbed and wish it could be otherwise.

This atypical, in our conditions, situation is especially relevant at the Polish Ocean Lines [PLO]. The Gdynia shipping line has financial problems and, in addition, the ships are old and need to be withdrawn from the fleet. One cannot cheat the sea and a ship that has exceeded the normal floating limits must end up in a bad way (although "on sight" the ships still look to be solid).

PLO has entered a period when old ships have been withdrawn, but new ships have not been put in their place. The plan for 1984 foresees, for example, the cancellation of 18 units, which will cause the loss of 900 jobs in the maritime construction industry. After withdrawing ships from service during the last 2 years, some of the more valuable positions have been lost (this does not mean that these positions had not been previously evaluated as unvaluable).

An analysis by the PLO employment service shows that a reduction of 1,444 employees from Polish Ocean Lines must take place this year. The eventual limitation of the number is dependent on the number of ships earmarked for cancellation in the fourth quarter of 1984. The ensuing results on employment would then be carried over to the first quarter of 1985.

In any case, these decisions on reducing employment on the ships could be responsible for closing a large factory.

The elimination of jobs tied to the cancellation of ships is not the only issue here. The employment base at PLO is generally large. At the beginning of 1983, the number of workers at PLO taking unpaid leave stood at 330, and at the end of the year 710. Employment services estimate that by the end of 1984 the number of workers on unpaid leave will increase to 1000 persons (above all, for work on ships of foreign flags).

Fights over these remaining jobs, of course, have taken place. And when there is a threat of not going out to sea (a sailor earns at sea a salary

that is laughingly low; a captain, the highest paid on the pay scale, receives not quite 20,000 zlotys per month), work on the fleet among the sailors comes into play. Since the publication in November 1983 of a communique from the PLO director regarding the employment situation at PLO and the need for work in other maritime enterprises, there have not been any further communiques on the subject.

Other activities have taken place. An agreement was signed between PLO and the Gdansk Port Authority (which also suffers from a shortage of people) concerning the transfer of some PLO employees to other employment in the port, i.e., transferring cargo in containers and cartons, strengthening cargoes, etc.

Withdrawal from use of suitable tonnage is given as the basis for reducing the number of workers servicing the fleet on land. It will not be a large number, defined by the percentage of ships during the year, which does not bring much enthusiasm to the sailors.

9807

CSO: 2600/911

## MANY FIRMS STILL UPSET OVER BACKTRACKING ON REFORM

Warsaw ZYCIE GOSPODARCZE in Polish No 14, 1 Apr 84 p 9

[Article by Tomasz Jezioranski: "A Consultation"; passages in slantlines printed in boldface in the original source]

[Text] The last (14 March 1984) meeting of the Government Plenipotentiary for the Reform with consultants representing enterprises had a somewhat different tone than several previous meetings. The difference resulted from a shift in viewing the reform.

The majority of consultations in the years 1982-83 were characterized by a narrow perspective, focusing attention on particular solutions evaluated exclusively from the point of view of consultants' proper workplaces. At the last meeting such concerns were also present, of course, but mostly they served to /illustrate/ general observations, remarks and suggestions.

One could draw from the following chief conclusion from the meeting: /enterprises are critically evaluating both the excessively slow rate of implementing the reform, and the departure in some areas from goal solutions and the gravitation toward mechanisms characteristic of the command system. "The new law which was to be a blockade against the reappearances and regressions back to the old system is often being circumvented and ignored by the administration,"/ said Minister Wladyslaw Baka.

"It is unacceptable"--said Ferdynand Golemo of the AZOTY Works in Tarnow--"to order a housing cooperative to turn apartments over to an enterprise, bypassing lists, or to demand that an export contract be broken and supplies be delivered to a domestic customer. Such practices," he said, "indicate a lack of respect for the law, bring anarchy into the economic life and cannot be interpreted otherwise than as attempts to restore forcefully the command system."

In the same manner the central administration was accused of applying the law retrospectively (new regulations concerning the FAZ [Vocational Activization Fund]), of delaying decisions (the common practice of long delays in the issuing of executive acts to new laws), of ignoring criticism and opinions of experts, and of the instrumental treatment and the arbitrary interpretation of the law.

Regarding the latter issue, Karolina Russ from the Passenger Elevators Combine suggested that a group of lawyers be formed in the plenipotentiary office or in the Team of the 10th Commission on the Reform, which would resolve doubts regarding the interpretation of the law, and would give a valid interpretation of it.

The growing practice whereby the branch ministries, whose power is expanding, assume the prerogatives of the function departments, induced sharp criticism. Branch departments set the rates free from deductions, FAZ factors, and rates of deductions for the progress fund. The law on the so-called wage experiments gave them the right to pass opinions on enterprise wage agreements. The Ministry of Foreign Trade permitted them to make decisions about the import purchases which enterprises make with their /own/ funds. The consultants said these were unacceptable moves which pull us away from the reform. /"The burdening of the branch departments with power functions" said one consultant, "prevents them from carrying out their basic task, namely, the thinking about the future."/

One could say that such remarks have been heard for a long time and if this is the major conclusion of the last consultation, it is banal. In appearance it is so. It seems to me, however, that if after 2 years of implementing the reform, a large group of enterprise representatives speak unanimously in favor of the reform and against all signs of softening it, this fact is worthy of note.

It means that the expectations of those who believed that with the passage of time and the accumulation of difficulties, managers' support for the reform would decrease and they would choose the convenience of submitting to orders over the pains of independence, have failed. It turned out that those who have tasted relatively authentic /management/ are not inclined to give it up to the administration and the execution of orders, even when the framework of their management is small and the rules of the game are difficult.

Interestingly enough, the consultation brought an acceptance of these new rules of the game. It was an acceptance expressed not by formal declarations, but by a lack of criticism. /It was strongly demanded, however, that systemic stabilization finally take place and the necessary corrections be announced without undue delays./

"On New Year's Eve I went to bed rich, and on New Year's Day I awoke poor," said one of the directors with real anger in his voice, and his statement met with the obvious approval of the audience. The approaching storm, however, was graciously calmed down by Minister Baka, who said with a smile that such was the fate of those who slept through changes. The audience accepted the joke and the plenipotentiary intelligently saved face.

The fact that there was no significant criticism of the new solutions confirms the truth which every director tells journalists in his office: "I can work under any systemic conditions, provided they are stable." This does not mean that there were no negative voices concerning the application of the solutions.

Director Czachorski from Wroclaw BUMAR-FADROMA said: "We were preparing the sales plan for 1984 with a rather good understanding of the needs. We decided that we would sell so much to domestic customers, and so much for exports. The transaction price was considerably more advantageous than the domestic price. Then all of a sudden a distribution list came from the Planning Commission, reversing our plans. Adhering to this list toppled our whole financial plan, our profits fell by several dozen percent, we had to break export contracts and pay contract penalties. We lost benefits which no one will compensate us for, and our enterprise got into serious trouble. We wrote about it to the Planning Commission, but since 30 January no answer has arrived yet."

Franciszek Kubiczek, first deputy chairman of the Planning Commission, made note of this issue, but did not speak up because, in fact, the new economic law is silent on the question of repaying benefits lost as a result of central distribution. This is a gap which ought to be closed quickly.

Another gap that was discussed at the meeting was the lack of a rational and clear criteria for managing subsidies. "We shall not escape subsidies, but /there is no reason to turn subsidies into an acceptance of inefficient management and a cover up for mismanagement," the consultants said. Subsidies must be built into the system and be objective, not subjective. This point had already been made many times before.

The /method/ of verifying the ROD [Distribution of Foreign Exchange Allowances] was evaluated negatively. Director Wieckowski from the Bierut Steelworks said that everybody understood the country's difficult foreign exchange situation and no one would protest if it was announced that because of such and such situation, all the allowance rates would be cut by 20 percent in 1984, let us say. But taking away money already allotted, arguing, "since you have not spent the money, it means you do not need it" is unacceptable and has nothing to do with the reform.

A separate trend in the discussion concerned wage issues. Janusz Pawlowski, the PPiSS deputy minister present at the consultation, announced that the department intended to make public the model framework of the wage agreement and a handbook--guidelines for wage schedules. He criticized enterprises for submitting agreement projects which had not been evaluated by the proper departments and he emphasized strongly the necessity for the maximum socialization of the process of constructing the agreements.

The audience did not seem enthused by the statute. The feeling was that while it was good that there existed such a law, it was too bad that it came so late. Similarly, if an enterprise could not afford a 1000 zloty raise as a minimum, it had no business in attempting to implement the method. The question was: "How many enterprises are in such a lucky position?"

The question cannot be answered because the labor department's knowledge of this problem is very poor. This became apparent during the work of the Sejm on the law, when it was learned that no simulation calculations had been made.

Since then, the state of the knowledge of enterprises' wage conditions has not undergone a visible improvement.

## JOURNALISTS CONFER ON LEGAL BARRIERS TO REFORM

Warsaw TRYBUNA LUDU in Polish 12 Apr 84 p 2

[Article by n.i.: "Does the Law Impede Reform?"]

[Text] At the suggestion of the Social-Legal Journalism Club and in cooperation with the Club for Journalists in Economics, a panel discussion on the topic of consistency of legal solutions with the model and goal of the economic reform was held the 11th of this month at the Association of PRL Journalists in Warsaw. The significance of insightfully prepared legal standards for a successful reform process was emphasized during the discussion. It was noted that an important element in impeding its realization is the old legal standards, which for the time being still coexist with the new solutions, as well as the attempts at controlling various problems connected with the reform in accordance with the so-called "ministerial law of duplication," which now is being strictly verified.

During the course of the discussion it was noted that all the underdeveloped legal preparations as well as the inherent difficulties connected with the process of beginning a new system become grist for the mill of reform opponents. A redoubled effort is required to bring about complete consistency of legal solutions essential for realizing economic goals.

Among others, taking part in the discussion were: Deputy Government Plenipotentiary for Economic Reform Prof Zdzislaw Sadowski, Deputy Chairman of Task Force IX on Economic Reform and President of the PTE [Polish Economic Society] Prof Tomasz Afeltowicz, representatives of ministries, scientific communities, socio-professional organizations, legal services and directors of enterprises--the professionals of economic life.

12491

CSO: 2600/919

NUCLEAR PLANT CONTRACTOR CITES DESIGN DETAILS, CREDIT WOES

Warsaw TRYBUNA LUDU in Polish 6 Apr 84 p 4

[Article by Zbigniew Wrobel: "New Specialization for Zamech--Nuclear Turbine for the Electrical Generating Plant in Zarow"]

[Text] At Zarow Lake in the northern part of Gdansk Province work has been proceeding for the last 2 years on the first Polish nuclear power plant. The building schedule for this project predicts that electricity will flow from it into the national network around 1990. At that time the first turbine-generator set will be activated on the pressurized water reactor of the WWER-440 type.

The Polish nuclear reactor uses Soviet technology which has been tested for safety and economy over years of operation in many countries. But this installation will be different from nuclear generating units operating in the USSR, Czechoslovakia, and Finland. The difference lies in the construction of the generating equipment. Much of this equipment will be built in Poland.

One of the domestic suppliers of equipment for the electrical generating plant in Zarow is Zamech of Elblag. In the workshops of that enterprise dozens of projects that were never attempted by Polish industry are being started. This is machinery for nuclear energy production; equipment for the engine room, a huge 600-ton condenser, two- and four-stage heat exchangers, various regulators, pumps and, of course, the turbines.

Strict Requirements

"Presently we are in the design phase of the generating machinery for the Zarow nuclear plant," said the construction chief at Elblag's Zamech, engineer Czeslaw Gren. "We are not in a rush, for according to our contract the first unit is not to be delivered until 1989.

"So there is enough time to work carefully and solidly on the turbine for the nuclear plant. This is required by the strict specifications for safety and reliability in the operation of such a machine anyway. In its construction we will be making use of the many years of experience in building and designing turbines and our access to the latest information in this field, which is available to us thanks to cooperation with the Swiss firm BBC and Soviet energy experts.

"In the WWER-440 reactor installations built to date each reactor was teamed with two turbine-generator sets with a capacity of about 230 megawatts each. We have proposed a different setup. Instead of the two turbines we proposed one with an output of 465 megawatts. This approach has more technological problems associated with it, but results in a 60-percent savings of high-quality materials and a gain of 25 megawatts for each machine, which is equal to 100,000 tons of coal annually."

"In Zarow there will be four energy generating units, the amount of savings is worth the bother," states the chief specialist for nuclear turbine, design engineer Jerzy Kruk.

The Soviet specialists who have worked out the project for Zarow have accepted the solution made by Zamech. In sum total this will be a machine of a different generation than has been built by the enterprise to date.

#### Technological Problems

One must cope with problems that are much more difficult than those encountered in conventional turbines. In a conventional turbine, for example, the pressure is 180 atmospheres with a temperature of 535 degrees Celsius. In an atomic turbine the pressure is barely 47 atmospheres with a temperature of 254 to 255 degrees Celsius, and in addition the steam is heavily saturated and condenses on the turbine blades, causing erosion of the metal.

The elements of the turbine for the Zarow plant will be larger than those of a conventional turbine due to the low heat parameters of the steam. They will be cast from new types of erosion-resistant metals which have very high safety ratings. Casting tests for new types of steel alloy, which among other ingredients contains a large amount of chrome, have been completed at Zamech.

Soon the new technology for machining the materials to be used in the nuclear turbines will be tested. This requires the application of vacuum techniques.

To execute all the projects and technological tasks connected with the production of the equipment for nuclear power generation Zamech should have at its disposal the sum of 2.5 billion zlotys. The major part of this sum should be used to purchase tooling--precision machining equipment, vacuum machining apparatus, machinery for treating and hardening the turbine castings.

Unfortunately, up to this time the Elblag enterprise has had difficulties in obtaining the necessary funds. Even though the documentation for the turbine-generator sets is more than half complete, preparations for production have progressed by only 2 percent. The delay could have an adverse effect on the speed of completion of the first machine.

12411

CSO: 2600/922

## PLANNING COMMISSION VIEWS AUTO INDUSTRY GROWTH PROSPECTS

Warsaw ZYCIE WARSZAWY in Polish 9 Apr 84 p 2

/Article by Dariusz Piatkowski: "Growth Prospects For the Auto Industry"/

/Text/ On 7 April, a meeting of the Presidium of the Council of Ministers Planning Commission was devoted to a review of prospects for further development of the auto industry, and especially to the production of passenger cars. Measures essential to the modernization of the production potential of enterprises in this subsector were outlined, as was the program assumption for modernizing cars manufactured by them, especially from a standpoint of reducing the use of materials and fuel. Various possibilities of foreign cooperation in the modernization of facilities and the production of passenger autos were explored.

Participating in the sessions, which were conducted by Manfred Gorywoda, chairman of the Council of Ministers Planning Commission, were Deputy Minister Zbigniew Szalajda and interested ministers.

Information provided by the Polish Press Agency is terse and laconic, but it reveals a great deal. The fact that the topic of discussion by the Presidium of the Council of Ministers Planning Commission dealt with the program for development of the auto industry, with special attention being devoted to the production of passenger cars, is an affirmation that the brakes will be removed, that the vacillations in the form of "can we afford motorization?" have come to an end.

We can afford it--because we simply cannot afford to squander assets, waste existing facilities which should be modernized and feared toward more efficient utilization of that which is already at the disposal of the passenger car factory /FSO/ and the compact car factory /FSM/ work force in Lublin and Starachowice, Jelcze and Sanok, Nysa and Poznan.

Obviously, even the best program and the decisions now adopted by the Planning Commission will not settle the day-to-day issues of modernizing production or a considerable increase in the supply of autos for the makret (already this year). It requires time and the necessary financial outlays.

Hence, in the PAP information, a statement appeared to the effect that various possibilities were explored for foreign cooperation in the modernization of facilities and the production of passenger cars. Undoubtedly, we could complete the new "Zeran 1200" and the new Bielsko-Biala "Beskid" by ourselves. But the work as well as the initiation of modern technology requires funds--not only zlotys--which our automobile industry does not have at its disposal at this time.

Several days ago we commented in ZYCIE WARSZAWY on the growing fuel crisis, on the fact that there is an increase in autos, but that there is constantly too little gasoline. Under such circumstances, is it feasible and worthwhile to discuss an increase in the supply of new cars for the market at all? Without even taking into account that it will be somehow necessary to honor commitments to several hundred thousand buyers awaiting autos drawn by lot with prepayment already made to the National Savings Bank /PKO/, it is certainly necessary to succeed in finding means for economizing on fabricating materials, raw materials and fuel in the modernization of this industry, in new technology.

New autos from the FSO and FSM--such are the adopted assumptions--are expected to be lighter, are expected to require less iron or steel than those previously produced. Likewise, the motors--also already tested and approved--use less fuel than those presently produced. Therefore, even if the supply of gasoline for the market does not increase considerably due to a lack of imported supplies, thanks to the more economical motors there will be sufficient gasoline for a majority of the cars.

Such are the initial conclusions of the PAP bulletin.

It is worth recalling that from 1972 to 1982 the automotive industry produced products for the market valued at nearly 800 billion zlotys, and in the year 1980 alone approximately 380 million dollars were derived from automotive exports. The fact remains that if production is not modernized as soon as possible and more modernized models are not offered, exports will decline with an accompanying decrease in income.

9951

CSO: 2600/918

## OFFICIAL DEFENDS PRODUCER GOOD PRICE HIKES

Warsaw ZYCIE WARSZAWY in Polish 16 Apr 84 pp 1, 2

/Article by (am): "Why Are Prices of Producer Goods Rising?; Clarification By the Office of Prices"/

/Text/ On the occasion of recent government decision concerning the determination of prices for industrial goods, much discussion was devoted to so-called justifiable production costs which are affected by various external factors, among other things higher prices for producer goods.

Jerzy Chabros, director of the department of pricing policy in the Office of Prices, comments on these very prices for the benefit of ZYCIE WARSZAWY readers.

At the very outset, it is necessary to remember that producer goods prices apply only to producers purchasing raw materials, fabricating materials, carriers of energy and those using transportation services.

Since the beginning of March 1984 the price of hard and brown coal, coke and crude oil has been increased by 20 percent; the price of oil and gas fuel by 25 percent; electrical energy by 15 percent; railway transportation of goods by 36 percent, motor transportation by 18 percent, inland navigation by 24 percent. Since 1 April the price of such raw materials as iron ore, steel and cast iron scrap metal has been increased by 60 percent; the price of metallurgical products by 16 percent, aluminum and zinc by 20 percent.

There is an avalanche of questions as to why such decisions are adopted when they exert an influence on retail prices....

And so the prices of producer goods must be changed for objective reasons due to price movements in the world market, as a result of decisive operations tending to improve economic relations and eliminate unprofitable production, etc.

One of the fundamental reasons is the fact that domestic sales prices of basic raw materials and fabricating materials derived from imports, have, and some continue to do so, reflected a lower level than the so-called transactional prices used in foreign trade turnover. This situation is in turn a result of an increase in foreign currency purchase prices, and also an escalation in the

exchange rate of foreign currencies. The exchange rate of foreign currency was raised in comparison with 1980: the dollar from 80 to 110 zlotys, and the ruble from 68 to 72 zlotys. This indeed improves the export profitability of Polish goods, but simultaneously makes imports more expensive.

The price of domestic raw materials should not only measure up to price levels on the world market, but should also cover legitimate production costs. So, the price of metallurgical products, for example, had to be raised because two basic elements used in their manufacture grew more expensive--ore, scrap and coal. The price of ore was increased because of its relationship to world prices, and that of coal because of ever increasing mining costs.

Coal is the most basic raw material; therefore, it is worthy of further comment, for its price affects the cost of basic domestic raw materials, thermal and electrical energy, transportation.

For many years the price of coal has been lower than the cost of its acquisition. Because coal is extracted from increasingly less economical beds, equipment continues to grow more expensive, as does the cost of labor. Even following a considerable increase in the price of coal in 1982, it did not become profitable.

In 1983 the average sales price per ton of coal came to 2,164 zlotys, whereas actual cost was 2,523 zlotys. During that year, after raising the sales price by 20 percent, it amounted to approximately 2,600 zlotys, but at the same time it is estimated that the actual cost of mining 1 ton of coal will reach the level of approximately 3,000 zlotys. Consequently, it is necessary to subsidize new prices of producer goods as well as retail prices which will not yield to change and still amount to 2,000 zlotys per ton of first-quality energy coal. When the opportunity occurs, I shall call to mind that payments for electrical energy and hot water remitted by the public did not yield to change.

In sum, coal mining subsidies in 1984 will amount to more than 100 billion zlotys, whereas if the last increase in the sales price had not occurred, they would have amounted to almost 180 billion zlotys. Coal prices cannot be changed at present to a level of full profitability because of economic and social reasons, inasmuch as they would have to be increased by at least 45 percent, and not by 20 percent, as was done on 1 March 1984.

From estimates conducted by our office, it appears that current increases in the price of raw materials and energy, in terms of goods whose production requires the use of metal, should reflect an increase in retail prices of no more than five to six percent. These are estimates, obviously, and it is difficult to be exact. It normally occurs that the more a product requires of the simple materials, such as for example, tin, the more energy-intensive it is, the more transportation service it requires, the more expensive is its production. Precision products requiring a high degree of processing will not be affected by the greater pressure of new prices for consumer goods.

Therefore, in calculating new retail prices, manufacturers cannot use the argument of producer goods prices exclusively as the only factor inflating their production costs. Obviously, the costs of higher amortization allowances,

resulting from a considerable re-evaluation of fixed assets, also enter into this, but this already requires a separate clarification of the issue.

The ban recently introduced on the excessive boosting of industrial product prices beyond legitimate costs, and also the periodic imposition of a 10-percent limit on increasing prices of staple commodities, are, therefore, fully justified.

The support of artificial producer goods prices, detached from economic reality, distorts cost accounting and production profitability and is not conducive to the economical use of materials and energy, which are so valuable to our economy. These prices must be constantly verified in their proper relation to world prices, to prices attained in our foreign trade, to the growth of production costs.

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## MINISTER, INDUSTRY LEADERS LAUD COAL EXPORT SALES RECORD

Warsaw TRYBUNA LUDU in Polish 20 Apr 84 pp 1, 2

/Article by Stanislaw Zielinski: "Favorable First Quarter Results Indicate Successful Year; Coal for Poland and for Export" /

/Text/ Yesterday's 19 April meeting of the management of the Ministry of Mining and Energy with directors and secretaries of the PZPR hard coal mine plant committee /KZ/ was devoted to summarizing the 1984 first quarter results as well as outlining the most urgent prospective tasks.

During the course of the first 3 months of 1984, miners have already produced 48.9 million tons of coal, which is 1.4 million tons more than last year and 1.3 million tons over 1984 first quarter plans.

Upon analyzing the tempo of miners' production as well as the advancement of preliminary work, it can be stated that the trend of surpassing the mining plan will hold throughout the entire year. Coal production should reach 191 million tons in 1984.

In the past quarter, the transportation situation was favorable, which made possible a decrease in supplies at the mining dumps by 2,132 tons. In the first quarter of 1984, 10.9 million tons were exported, representing almost 26 percent of the annual commitment. Let us remember that this year's plan assumes an export of 42 million tons of coal.

Each year, from the standpoint of resources, we lose almost 1.5 mines; therefore, the preliminary work of restoring the exploitation front as well as work associated with the construction of new mines have enormous significance. The degree of advancement of both one and the other is good. It is possible that the Cieczot mine will begin operating in 1985, and Kaczyce a year later. Three additional investments are being conducted on a limited scale.

Among the most urgent problems at present, which the ministry must resolve, is improvement in the quality of coal, especially energy-bearing coal dust, which has not been mechanically washed, the introduction of new technology for mechanized mining in thin and steep walls, as well as perfection of the hydraulic and pneumatic base.

Much remains to be done yet in the sphere of social matters involving the mining work force. This year's plan calls for the delivery of 5,427 living quarters, of which 940 have been allocated. The ministry has prepared a concept for development of the hard coal trade to the year 2000.

The minister, Lt Gen Czeslaw Piotrowski, headed the conference. Present was the chairman of the Federation of Trade Unions of Hard Coal Mines, Mining Enterprises and Mine Shaft Construction Enterprises, Rajmund Moric.

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## IMPORTS BY INDUSTRY AND MINING, 1981-83

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 12 Apr 84 p 3

[Article by S. Sindolic]

[Text] In the past few years, because of increasingly difficult economic circumstances and the country's trade deficit, a gradual decline in the total value of imports has been recorded. This decrease is typical for all economic sectors, but particularly for imports of labor resources. Import balances also have other characteristics, especially those relating to convertible foreign exchange areas and sectors of exports.

When we speak of the total value of imports, we frequently hear that we continue to import certain items (finished goods of semimanufactured materials) that we could obtain, in larger measure than heretofore, from domestic sources. This relates first of all to a number of agricultural, processed food products, followed by certain raw materials for the needs of ferrous and nonferrous metallurgical enterprises, the chemical industry, the textile industry and other branches and industrial groups. The reasons for last year's imports of petroleum and gas products worth 170,811,000,000 dinars (excluding petroleum derivatives valued at 17,207,000,000 dinars) are well known, since domestic production usually is around 4 million tons of crude oil. Special analysis should, however, be made of last year's imports of chemical products worth 93,086,000,000 dinars, imports of 30,268,000,000 dinars worth of processed food products and 91,180,000,000 dinars for machine-building products. Other branches of industry and groups in individual areas should also be examined.

## First Comparisons

Analysis of total imports by economic areas in the past 3 years indicates several basic trends, in which the greatest expenditures of resources were recorded (in million dinars):

| Area                    | <u>1981</u> | <u>1982</u> | <u>1983</u> |
|-------------------------|-------------|-------------|-------------|
| Overall Imports         | 921,054     | 808,281     | 770,587     |
| Industry and mining     | 854,739     | 745,684     | 723,407     |
| Agriculture and Fishing | 56,529      | 53,921      | 40,324      |
| Forest industries       | 8,213       | 7,340       | 5,775       |
| Other                   | 1,573       | 1,336       | 1,081       |

As data of the Federal Statistical Office show, reduction of total imports was accompanied by reduction of imports in each individual area. Since the value of imports for industry and mining accounted for 93.8 percent of the total in 1983 (compared to 92.8 percent in 1981), that area requires at least a cursory consideration of trends in specific branches, especially those that place the greatest burden on the country's trade balance. Are they justified or not?

It should be noted immediately that certain products are fully justified for importing, because they are produced in insufficient quantity domestically, or are not produced at all (i.e., crude oil and derivatives, various equipment, chemical products, cotton, various fabrics and knit goods, coking coal, paper, etc.). It is, however, difficult to find justification for importing various products that with better commercial and technical cooperation and organization could be produced in greater quantities by domestic sources (various equipment, processed food products, paper, textile products, notions and the like).

#### "Bearers" of Imports

One comparison based on data of the past 3 years can be used to show what sectors place the greatest burden on the economy among industrial and mining activities. Starting from the measure of citing only those sectors or groups that imported more than 20,000 million dinars worth of goods last year, we reach the following statistics (in million dinars, giving as well as the share of total imports for industries and mining):

| Sector                                | 1981    | %    | 1982    | %    | 1983    | %    |
|---------------------------------------|---------|------|---------|------|---------|------|
| Total-industry and mining             | 854,739 | --   | 745,684 | --   | 723,407 | --   |
| oil and gas production                | 196,263 | 22.9 | 170,646 | 22.8 | 170,811 | 23.6 |
| nonferrous metallurgy                 | 59,791  | 6.9  | 46,646  | 6.2  | 41,675  | 5.7  |
| metal processing                      | 29,962  | 3.5  | 26,429  | 3.5  | 23,148  | 3.1  |
| machine-building                      | 119,069 | 13.9 | 105,099 | 14.0 | 91,180  | 12.6 |
| electrical machines<br>and appliances | 52,898  | 6.1  | 44,570  | 5.9  | 44,497  | 6.1  |
| chemical products                     | 97,462  | 11.4 | 87,378  | 11.7 | 93,086  | 12.8 |
| processing of<br>chemical products    | 38,668  | 4.5  | 31,510  | 4.2  | 39,555  | 5.4  |
| processed foods                       | 37,024  | 4.3  | 22,522  | 3.0  | 30,268  | 4.1  |
| means of transportation               | 54,037  | 6.3  | 51,982  | 6.9  | 44,628  | 6.3  |

It is apparent that the greatest import burden comes from imports of oil and gas products. Until greater domestic supplies of crude oil are provided, or other alternatives are found to replace crude oil and its derivatives, this share will remain the same in coming years. Nonferrous metallurgy has recorded a gradual decrease in the value of imports, and the same can be said for metal processing activities. Although the share of machine-building in the total has shown a decline, it remains rather large. Uneven trends have been recorded in "electrical products and appliances", while "chemical products" and "processing of chemical products" have registered continued

overall increases in their share of the total, even while declining in absolute value. Despite their share in terms of percentage, "processed food products" and "means of transportation" represent quite a burden for the country's balance of trade.

#### Last Year's Burdens

We cannot ignore other producers who are the "bearers of imports," primarily "crude oil derivatives" that accounted for 22,978 million dinars the year before last and 17,207 million dinars last year, followed by "coal production" with 19,997 and 18,485 million dinars for those years, respectively, and "nonmetal products" with 13,342 and 14,321 million. Imports for "paper production and processing" in 1982 amounted to 12,655 million dinars, and last year totaled 11,902 million dinars. Nor should we ignore data on imports of products in the category "knit and woven goods", which increased from 13,777 million dinars in 1982 to 16,020 million dinars last year, or the figures of 5,080 million dinars and 6,361 million dinars, respectively, for "production and processing of waste byproducts". Another burden was in nonferrous metal products," which accounted for 11,658 million dinars in 1982, and 10,909 million dinars in 1983, while yet another is "products of ready-to-wear textile goods," with 4,845 million dinars and 5,253 million dinars, respectively. Imports of "cotton processing" amounted to 4,942 million dinars in 1982, and 6,375 million dinars in 1983.

A more detailed analysis of imports last year, particularly by individual branches and groups, would certainly be able to define justified and unjustified imports. That which had to be imported included crude oil, coking coal, certain specific chemical products, various equipment and machines, textile raw materials and other products. We must obviously import raw cotton (in the past 3 years 312,000 tons worth 39,077 million dinars were imported), for we still have not created domestic conditions for its production; the same can be said for certain types of wool. No special emphasis should be placed on the fact that we have constantly been obliged to increase outlays for importing both natural and synthetic rubber, although the completed facilities at Elemir near Zrenjanin will certainly bring a decrease in imports of synthetic rubber.

That which we import because either we produce none of it at all or produce quantities too small to satisfy our domestic needs will continue to be imported, for it is economically justified. We cannot, however, continue to expect "coverage" for a certain number of imports that can be supplied from domestic sources. Rationalization of production must be based on rationalization of imports. Thus it seems that it is very difficult to continue justifying imports of certain equipment or machines for industry, agriculture or construction, since some of these products can be acquired domestically. It is true that sometimes there are problems in doing so (credits, prices, product selection, quality, etc.), but that excuse has been around for years. Analysis of imported equipment (boilers, motors, tractors, cultivating machines, compressors, cranes, irrigation equipment, and precision instruments) could certainly show where domestic solutions could be found and total imports decreased.

That which has been said about equipment and machinery can also be said about other products, chiefly imports of chemical compounds and components, as well as plates, various building materials, plastics and synthetic products, etc. One hears constantly of the need for better organization-- of purchasing and other acquisition of waste byproducts--, but the imports continue to rise. Last year alone, imports of scrap iron and castings amounted to 738,000 tons worth 4,805 million dinars. Last year as well, over a million tons of other byproducts were imported. Talk about further modernization of the raw material base for the wood and paper industries continue, but rather large amounts of raw material are still being imported, along with cellulose, paper and cartons, etc. Such conversations are also heard regarding increased imports of medical and pharmaceutical supplies, synthetic fertilizers and other products. All this means that this year and in the coming years, the program of foreign trade will have to seek the solutions that are most acceptable. True, at times consideration will have to weigh the structure and exports of trade partners, and arrangements that are not the most beneficial will have to be accepted, but there must be some measure to such arrangements, and economic and social justification must be foremost.

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## CRUDE STEEL PRODUCTION DATA, 1983

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 12 Apr 84 p 5

[Text] For the first time since its beginnings, Yugoslav steel production last year surpassed 4 million tons of crude steel. Nevertheless, this production fell below the plan total by more than 7 percent, because dynamics were not coordinated between steel foundries and steel product mix.

| Steel Plant              | plan(tons) | production(tons) | percentage | index 83/82 |
|--------------------------|------------|------------------|------------|-------------|
| Siemens-Martin Steel     |            |                  |            |             |
| Zenica                   | 850,000    | 792,690          | 92.7       | 100.1       |
| Sisak                    | 279,520    | 239,050          | 85.5       | 99.4        |
| Jesenice                 | 310,000    | 304,174          | 98.1       | 97.2        |
| Smederevo                | 93,000     | 96,044           | 103.3      | 101.7       |
| TOTAL                    | 1,537,520  | 1,431,950        | 93.1       | 97.8        |
| Electrical Furnace Steel |            |                  |            |             |
| Zenica                   | 25,000     | 26,749           | 106.7      | 104.3       |
| Niksic                   | 321,000    | 251,830          | 78.4       | 103.0       |
| Sisak                    | 71,000     | 69,045           | 97.2       | 103.3       |
| Split                    | 66,639     | 64,799           | 97.2       | 110.1       |
| Skopje                   | 168,000    | 155,545          | 92.6       | 122.7       |
| Jesenice                 | 177,000    | 165,540          | 93.5       | 104.5       |
| Ravne                    | 221,000    | 218,254          | 98.7       | 105.8       |
| Store                    | 131,579    | 126,250          | 95.9       | 112.8       |
| Smederevo                | 6,800      | 7,285            | 107.1      | 99.8        |
| TOTAL                    | 1,188,018  | 1,085,297        | 91.3       | 108.0       |
| Oxygen-Convertor Steel   |            |                  |            |             |
| Zenica                   | 920,000    | 857,439          | 93.2       | 111.4       |
| Skopje                   | 267,000    | 195,119          | 73.1       | 126.9       |
| Smederevo                | 615,000    | 546,166          | 88.8       | 128.5       |
| TOTAL                    | 1,802,000  | 1,598,724        | 88.7       | 118.6       |
| Overall Total            |            |                  |            |             |
| Crude Steel              | 4,527,538  | 4,115,971        | 90.9       | 92.7        |