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TRANSLATIONS ON EASTERN EUROPE
ECONOMIC AND INDUSTRIAL AFFAIRS
(FOUO 4/79)



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CZECHOSLOVAKIA

VHJ ORGANIZATION, MANAGEMENT DEVELOPMENT DESCRIBED

Prague PODNIKOVA ORGANIZACE in Czech No 10, 1978 pp 443-446

[Article by Engr Antonin Stanek: "Past Development of the VHJ Organization and Comprehensive Management"]

[Text] The process of production concentration is related to the development of productive forces and to the corresponding level of division of labor in society. The objective developmental tendency toward increasing production concentration is reflected in the integration processes which consist in grouping of enterprises into large economic complexes with unified management. From the standpoint of the economy as a whole, the purpose of grouping is to embrace individual productions and all related and supporting technical-economic activities. Production controlled by individual enterprises so far as put under unified management within the economic production complex.

In integrational grouping of enterprises into larger units, production concentration is achieved essentially in two ways:

--through horizontal combination which is a supraenterprise integration of enterprises engaged in identical or similar production based essentially on the same technology;

--through vertical combination which is a supraenterprise integration of enterprises engaged in dissimilar, but related production with regard to final products. These enterprises are usually integrated from the standpoint of and around production which represents the focal point of production within the entire integration.

Horizontal concentration, on the one hand, economy by suppliers (favorable conditions are created for effective production specialization), while, on the other hand it frequently causes irrational costs for the customers (violation of production and contractual discipline by the suppliers, transportation costs and maintenance of inventories). The increase in horizontal production concentration forces the integration in question to strengthen and expand supplier-customer relations with the enterprises of other

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integrations. For the sake of balancing demand with supply, these supplier-customer relations must essentially be centrally controlled.

Vertical concentration makes optimum use of the advantages of production specialization through the division of production programs among all production units so that the production process evolves smoothly along the vertical axis within the entire integration. The increase in vertical production concentration consolidates and increases division of labor within integrated enterprises and reduces the number both of economic links between enterprises of different integrated groupings and centrally controlled balances.

The planned establishment of large economic production units (supraenterprise organisms) in the socialist countries has been the fundamental feature of the organizational development of the production-technical base in industry from the end of the 1950's. The planning of production concentration and integration processes is the manifestation of the objective necessity of effective use of socialist social ownership of the means of production.

Attention in all socialist countries concentrated on forms of integration which would create the best possible prerequisites for enactment of important measures within the economic reforms designed to strengthen central planned management and to increase efficiency of industrial production. At the present time, various forms of integration exist which are due to the attained level of production concentration and general level of management of respective sectors and branches, and specific conditions prevailing in individual countries. The management apparatuses of integrated groupings gradually assume increasing numbers of functions which are necessary for really unified and effective management of integration as a whole. This concentration of functions and the gradual improvement of their execution represents in its sum the process of really increasing the role of supraenterprise organisms.

From the beginning of the 1970's, attention in the GDR focused on finding those elements which would contribute to the solution of the fundamental problem and requirement--a gradual and consistent transformation of existing associations into khozraschet units properly equipped and staffed for insuring an effective development of the entire production process including the preproduction stages. A major step forward was vertical production concentration by the combination of different productions through the centrally planned establishment of industrial combines. Their establishment was designed for instances when rationality required the organization of manufacture of certain products, recognized by the center as key and developmental products, in one uniformly managed economic organism.

The following four types of combines became eventually stabilized in the GDR:

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--combines with successive phases of processing of raw and industrial materials (for example, metallurgy with production of pig iron, steel, rolled material);

--combines including basic and auxiliary production (for example, production of pig iron combined with production of building materials made from the blast furnace slag);

--combines for comprehensive utilization of raw materials (for example, petrochemical combines);

--combines specialized in production of aggregates, groups of products and parts which are then delivered to the main (complementing) plant. This is the most frequent type in the GDR.

The combines are either made part of the association or are managed directly by a ministry.

Generally speaking, the combines in the GDR have been favorably commented upon and their basic advantages lie particularly in the possibility of large series production, wide application of mechanization, automation, concentration of means and qualified personnel in the manufacture of important types of products and in the reduction of existing cooperation between individual sectors.

In the USSR, in accordance with the development of productive forces and needs of the Soviet economy, planned production concentration was carried out both horizontally and vertically in accordance with the specific conditions. Production associations and vertically organized industrial combines were therefore set up in individual sectors and branches. The 24th CPSU Congress called for further production concentration according to the plan, formation of additional combines and establishment of science-production associations.

These tasks were gradually implemented in the USSR. More than 1,200 production associations existing in 1966 were gradually integrated into more than 600 large associations by 1972.

Science-production associations represent a new form of organization of production-technical complexes essentially involving an organic and effective fusion of research with production in order to manufacture new equipment as soon as possible. The production section of the association is organized according to the needs and requirements of the association's research base. The research section thus becomes the dominant unit of the organization and it determines the nature and structure of production. There are three types of science-production associations:

--associations specialized primarily in research and testing of new types of products;

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--associations engaged in research and manufacture of mechanization and automation devices;

--associations specializing in the introduction of new technological processes.

Taking into account the fundamental tasks and goals, there is a considerable variety of types of these science-production associations. Experience with these associations has been very positive so far.

All-union and republic industrial associations have recently begun to be set up. They are organized from the standpoint of one or several inter-related branches as large, comprehensively equipped and unified economic production units. They include primarily appropriate production associations, combines and organizations active in preproduction stages (scientific research institutes, design and development organizations).

Supreenterprise Organisms in CSSR

One of the basic prerequisites for the application of principles of an improved system of planned management in the CSSR was the reorganization of the production basis through the establishment of comprehensively equipped large economic production units. Individual enterprise integrations have full responsibility for the satisfaction of the planned needs of the national economy by their products, and authority derived from the above responsibility and delegated by the control center to make decisions on the fundamental problems arising out of their activities.

Economic production units (VHJ)--supraenterprise or enterprise integrations--set up in 1958 assumed one of the following three organizational forms:

--associations of enterprises;

--main enterprise with its own plants and branches;

--individual independent enterprise--with plants--which is controlled directly by a ministry.

Some 383 VHJ were established (including the enterprise sphere of the then existing Ministry of Agriculture and Forestry) 67 of which were associations of enterprises.

Economic production units of 1965 (government decree No 132/1965 of SBIRKA) were set up in two forms only:

--associations of enterprises (enterprise trust) and

--sectoral enterprises.

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The total number of VHJ was reduced to one-third and substantially larger economic production units were formed at the time. The previous 254 VHJ in industry and building were integrated into 90 VHJ.

The clarification and setting of some additional tasks in connection with the requirement of strengthening the VHJ's position were, together with the proposals adopted for improvement of the system of planned management, included in government resolution No 204/1971 as "The Principles of Planned Management of National Economy" which became effective in 1972. They provided, among other things, for the amendment, on the basis of past experience, of government decree No 132/1965 which allowed further differentiation of VHJ and enterprises including combines and concerns.

Government decree No 91/1974 on the organization of economic production units and their statutes introduced, in addition to the two already existing types [trusts and combines] the third organizational form--the concern--effective 1 January 1975.

The 15th CPCZ Congress paid great attention to management, planning and organizational work. It set the task of improving the system of planned management and planning, increasing efficiency of economic incentives, improving the organization of the production-technical basis, raising the standard of management and organization, and broadening the workers' participation in management.

It lay special emphasis on the following important tasks of ministries in charge of individual sectors and of the middle levels of management (VHJ):

- conceptual development of individual sectors and branches;
- formulation and implementation of uniform technical and investment policy;
- satisfaction of the national economy's needs by their products;
- development of external economic relations;
- organization of the plan fulfillment.

In the report on the main directions of the economic and social development of the CSSR during the 1976-1980 period which was read by Comrade L. Strougal, the principal role of VHJ was formulated as follows:

"The increase in output and complexity of production, control over the reproduction of basic assets and the solution of problems of technical development and international cooperation and integration within CEMA necessitate making the VHJ a comprehensive unit operating according to the principles of khozraschet, and differentiated in accordance with the conditions and nature of production.

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"Best conforming to these requirements is the concern type of economic production unit and sectoral enterprise, including the use of combination grouping whenever it is expedient. These organizational forms make it possible to rationally control and economically organize the management apparatus. After a careful organizational and political preparation, we shall therefore, carry out these changes while keeping in mind that higher economic efficiency of new production units remains the ultimate goal."

In accordance with the tasks set by the 15th CPCZ Congress and efforts to improve the system of planned management, a "Comprehensive Experiment in Efficiency and Quality Control" has been designed which will be verified by some VHJ during the 1978-1980 period.

Among the major features of general rules governing this experiment which were approved by the resolution of the CSSR government presidium No 279/1977 are the following ones:

--conditions are created for VHJ to become the basic unit of management in the enterprise sphere;

--VHJ as a whole is the subject of the experiment. It acts as the basic unit of management regardless of the organizational form;

--the five-year plan is the basic tool of management. The fulfillment of basic tasks is evaluated for the entire five-year period, in individual years cumulatively from the beginning of the five-year plan;

--enhancing the tasks of technical development in the system of VHJ management (creation of conditions for cooperation between individual departments of VHJ from research phase to finishing phase);

--introduction of obligatory planning indicators from the area of innovations and higher technical and economic standards of products.

Improvement of Present Forms of VHJ

The main reasons for establishing large, economically strong, comprehensively equipped production-economic units (VHJ) fully operating according to the khozaschet principles can be summed up as follows:

--objective tendencies toward production concentration and combination which stem from technical and economic production expansion;

--increased importance of long-term planning and economic forecasting which stems from the decisions on the technical and innovation development, international socialist integration and structural changes;

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--increasing scope and complexity of certain activities (technical complexity of production and supplier-customer relations resulting from it; requirements for the concentration of research and development capacities due to the constantly accelerating rate of scientific progress; implementation of research and development results requires the concentration of investment funds for the priority projects);

--economy brought about by the concentration or joint pursuance of certain activities in one place.

Generally speaking, the following fundamental features are typical of management on the VHJ level: a conceptual approach, long-term nature and concentration on the fundamental comprehensive contexts. The essential point is that the enterprises integrated into VHJ must be able to satisfy society's needs and develop better than individual separate enterprises are.

The role of VHJ as the middle unit of management resulting from the vertical division of management of the economy can be described as follows:

--it elaborates on the decisions of the center and authorizes individual enterprises to carry them out;

--it integrates management of individual enterprises and puts it on a uniform basis in order to achieve higher efficiency;

--it controls relatively independently the entire integrated unit.

The sectorial or branch principle of production organization has been and is the underlying and dominant principle in the organization of production basis and VHJ position in Czechoslovak industry. The application of the sectorial principle, which resulted in the establishment of predominantly horizontally organized VHJ, followed the fundamental purpose of this principle, namely:

1. creation of favorable conditions for effective intensification of the division of labor through production specialization;
2. direct management of industrial production by the central organs by individual branches and sectors.

On the other hand, the sectorial principle:

1. promotes the intensification of production specialization within the respective sector or branch only. If, however, individual sectors and branches of the national economy do not develop in the desired proportionality, from the standpoint of the societywide production process, production specialization increases disproportionately;

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2. within the trust, it gives rise to a serious problem--how the integration as a whole could be actually and effectively managed. Management lies in achieving harmony between the khozraschet (that is, economically relatively independent) status of individual enterprises and the requirement that VHJ as a whole also must operate as a khozraschet unit.

When enterprises of the same sector or enterprises manufacturing products of related sectors amalgamate into a VHJ, it is a combination of enterprises of different size, with different fund structure, different age of basic assets, different level of intraenterprise management and heterogeneous production programs (even if related production sectors are involved)--in other words, enterprises with different production conditions. This lays great demands on the trust management in relation to individual enterprises.

One of the possibilities of improving the present organizational production structure of VHJ in question is to improve the application of the sectorial principle by restricting the negative consequences associated with its application so far. A wider application, according to the plan, of rational combination elements in all forms of VHJ appears to be expedient.

In the present organizational structure of engineering VHJ, the elements of vertical combined production organization are represented on two different planes:

1. there are isolated instances when a long historical development led to a vertical combination of production organization and this organization was preserved when a VHJ was set up (for example, VHJ Skoda, VHJ CKD [Ceskomoravska-Kolben-Danek]). For the manufacture of complex final products (particularly piece production according to the customer's specifications), the VHJ manufactures itself the key elements, subassemblies and groups of products--from metallurgical products to conventional groups of machinery to the complementary products which are not manufactured in series by specialized producers (electric drives and accessory equipment, hydraulic elements, gear boxes);

2. combination elements are used also in the enterprise trusts which are regarded as typical representatives of horizontal production organization. In this instance, either the respective VHJ has its own metallurgical base, manufacture of complementary products for the main final production and possibly also its own sales organization (for example, VHJ CAZ [Czechoslovak Automobile Works], VHJ TST [Plants for Engineering Machinery], VHJ ZTS [Heavy Engineering Plants]) or individual enterprises of VHJ are producers of part of capital goods or technologies which are subsequently put together by VHJ into a complete unit (for example VHJ Chepos, VHJ IVTAS).

The enterprise trusts based on the sectorial principle are to strengthen their relatively comprehensive nature, it appears expedient to apply in their production process the following combination elements:

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--for complex final products or complete plant equipment and large technological units which represent the focal point of VHJ production, to use products manufactured by individual enterprises as a share in the common mission of VHJ;

--to promote and increase cooperation within the VHJ by setting up specialized departments for manufacture of parts and subassemblies which are used in several production sectors of the VHJ or are technologically similar (for example, parts of conveyors, frames, axles, cabins and chassis of working machines);

--setting up of specialized departments for manufacture of elements or completion of groups of products and aggregates which are not generally used and cannot be supplied by the specialized producers (such as hydraulic face rams, electric distribution and control boxes);

--to create within the VHJ an organization for higher supplier activity;

--VHJ's own manufacture of machinery and equipment to be used in the VHJ's own basic production (only certain atypical machines and equipment).

These combination elements must be applied in VHJ as a whole in order to make the VHJ a comprehensive, integrated and self-contained economic production unit.

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KHOZRASCHET AND CAPITAL INVESTMENT FINANCING POLICY DISCUSSED

Prague EKONOMICKY CASOPIS in Slovak No 10, 1978 pp 940-949

[Article by Michal Pancak]

[Text] The Guidelines for the Economic and Social Development of the CSSR during the period 1976-1980 and the March 1978 meetings of the Central Committees of the CPCZ and CPSI called upon investors to enhance the efficiency of their capital spending activities by gaining better control over the entire cycle encompassing the management, planning, and implementation of capital projects. It is therefore essential that they should make provisions for the timely completion of preliminary and final design plans and for their compliance with high technical and economic standards, enhance the cost-effectiveness of capital, architectural, and urban-planning designs, and eliminate excessive amounts of in-process construction work both in productive and non-productive industries. The realization of this goal should be furthered by the more meticulous performance of consulting work and by more responsible capital-investment decision making at all management levels.

All capital construction plans and all design work must comply with the high standards that have been set in the area of efficiency. Allocations of financial resources, as determined by public agencies and within the limits necessary for the attainment of assigned targets, must be made available to all participants in the capital construction process.

It will not be possible to insure an increase in the cost-effectiveness of fixed assets and the sustained growth of efficiency unless more effective use is made of cost accounting methods. Managers and decision makers in the capital construction sphere should weigh the benefits that are derived from the expenditure of every single koruna, and it is in this light that they should measure the effectiveness of their decisions.

For this reason, the concepts of khozraschet and financial management must play a more active role and be employed on a wider scale as integral parts of the capital investment process. The khozraschet system and the entire

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credit and financial management system should employ their leverage mechanisms so as to play a more effective role in all areas where public funds are being spent ineffectively, uneconomically, or in a manner that violates principles of efficiency.

While underscoring the importance of khozraschet and financial management it should also be pointed out that in the realm of capital construction it is just as necessary, if not more necessary to upgrade the quality of direct management and planning work, since the plan is the only instrument that can be used to strike a balance between the output of capital goods and the output of consumer goods (which are a point of departure for capital construction not only when it comes to their production, but also to their distribution).

In this article, however, we will be concerned solely with the problems of khozraschet and financial management in the realm of capital construction. We will attempt to shed some light on certain aspects of these problems and to indicate ways in which financial management in the area of capital construction can be improved precisely from the standpoint of the more consistent application of khozraschet principles.

We will describe the essential characteristics of khozraschet as this concept is now being interpreted during the present phase of our work on the construction of an advanced socialist society.

Khozraschet is an economic concept and a method used for the planned management of socialist enterprises. The essential characteristics of this economic concept and management method are defined by the economic relationships that obtain within the context of discrete socialist capital replacement (which are of course a function of collective socialist capital replacement). According to this definition, then, khozraschet is a manifestation of the general laws and specific characteristics of discrete socialist capital replacement, which in turn is the basis for the view which holds that the individual enterprise may be regarded as the main vehicle of this process of discrete capital replacement, but this does not at all prevent us from regarding VNJ's or even entire branches as vehicles of discrete capital replacement.¹

This gives rise to the following question: namely, what are the boundaries of discrete socialist capital replacement or what are the boundaries of khozraschet? To give the reader a general understanding of our approach to

1. "...discrete capital replacement is not a function of khozraschet; on the contrary, the objectives of khozraschet activity are a function of discrete capital replacement...." Bunich, P. G. "Upravleniye, ekonomicheskoye tychagi, khozraschet" [Management, Economic Levers, and Khozraschet], Moscow, Nauka, '76, p 13.

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this problem suffice it to say that these boundaries are defined by the interests of the national economy or also by those organizational and economic relationships which do the best job of insuring the greater efficiency or discrete socialist capital replacement.

The essential characteristics of khozraschet are a manifestation of its underlying principles. Khozraschet, is an economic concept and at the same time as a method for the planned management of socialist business enterprises, is based on the use of revenues to pay operating costs and the attainment of a specified level of profitability, on the relative economic and operational autonomy of khozraschet establishments, on the utilization of commodity-monetary relations, and on the material self-interest of khozraschet establishments. In effect khozraschet at the enterprise level² is intended to endow business enterprises with a certain degree of economic and operational autonomy. We know from experience that this is a very complex task.

By employing the direct and indirect management levers at its disposal the socialist state assigns tasks to the khozraschet sphere of the economy that also take into account the utilization of planned socialist commodity-monetary relations, but in most cases it does so in a manner that is indicative of its desire to bring the interests of society into harmony with the interests of enterprises, work collectives, and individual workers.

The interests of society and the state and hence the interests of the public at large as reflected by the plan are not always in complete accord with the interests of enterprises and their work collectives. To be sure, steps must be taken to eventually harmonize these disparate interests (that is, their non-antagonistic differences).

To some extent enterprise khozraschet, by virtue of its principles and their implementation in actual management of enterprise affairs, acts as a coordinator of these two groups of interests. That is, it mandates the assignment of tasks and the spheres of interest pertaining to decision making processes related to the selection of production factors and their most efficient combination. Under certain conditions enterprise khozraschet is able to coordinate these two areas and thereby bring the interests of enterprises, work collectives, and individual workers into harmony with general social interests.

The principles of khozraschet management define the relations that exist between a given enterprise and (1) the state (also represented by the banking system), (2) other socialist enterprises, and (3) a given enterprise's own employees. Of course, in actual practice the relationships that exist

2. Delineating the boundaries between the khozraschet spheres of enterprises, VhJ's, and branches is another problem which we will not deal with in this article.

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between a socialist business enterprise and the outside world are much more complex and far-reaching. In addition to its relationship to the state budget, a khozraschet enterprise also maintains relations with its organizationally superior organs, economic production units, and so on.

Labor relations are also not confirmed to the relationships that exist between individual enterprise employees and the khozraschet enterprise proper. Labor relations develop within enterprises between individual work areas, which may be workshops, operational divisions, plants, and so on, and in this context such relations exist between work areas as collective entities and between them and individual workers.

The points which we made in our analysis of the essential characteristics and principles of khozraschet are obviously also applicable to capital construction. But we should realize that under an economic system where the means of production are socially owned the capital construction sphere must be subject to the directive mandates of the plan to a much greater extent than any other sphere of the capital replacement process.

We will now proceed to discuss certain problems that have a bearing on the improvement of the capital construction process from the standpoint of khozraschet and financial management. We have witnessed some signs of improvement in the performance of management work in this area even during the course of the Sixth Five-Year Plan and in particular in connection with the comprehensive experiment in efficiency and quality management, which to a certain extent is also focused on the realm of capital construction. Some of its basic ideas are very closely related.

In the first place, there is a clear emphasis on long-range forecasting as the basic prerequisite for the attainment of higher efficiency ratings in the performance of management work and especially in the performance of planning work. Equal emphasis is being placed on the more effective utilization of khozraschet, including those of its aspects based on material self-interest. For this reason, VNJ's participating in the experiment will be faced with major mandatory tasks under the terms of the five-year plan that will have to do with the ratio of profitability to productive assets and the system of norms for personal, collective, and enterprise incentive payments. The greater emphasis on material incentives will also be accompanied by the increased use of economic sanctions.

A capital development fund is being set up to serve as a mechanism for establishing a correlative relationship between capital spending and the formation of earnings. This amounts to a major shift in capital spending policy, since the former small-scale enterprise capital investment fund, even though it essentially reflected a similar line of thinking, was incapable of bringing much influence to bear on this area by virtue of the fact that it accounted for less than 10 percent of the total volume of enterprise capital spending. On the other hand, in most cases the capital development fund is supposed to meet approximately 50 percent of overall enterprise capital spending needs or

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as much as 80 to 90 percent of these capital spending needs in some branches. The establishment of capital development funds on this scale is already reminiscent of the decentralized capital construction policy that prevailed in the CSSR during the 1960's, a policy which, as is well-known, was one of the reasons that led to the holding up of the economic reform in the CSSR. Based on the lessons learned from Czechoslovakia's experiences in the 1960's, it will be necessary to avoid the stumbling blocks that stood in the way of this economic reform.³

At the same time, there has been an intensification of the trend whereby enterprises are being consolidated into VNJ's, which in accordance with the guidelines laid down by the 15th Congress of the CPCZ are supposed to become the linchpin of the management system at the business enterprise level.

In light of our preceding remarks concerning khozraschet it follows that the most important principle of khozraschet, which is an expression of its essential nature and purpose, is the fact that an enterprise's expenses are to be paid for with revenues earned from the sale of its products and that this forms the basis for the realization of its net income. According to this principle, an enterprise is not only supposed to pay for all of its own expenses, but is also supposed to make a profit. This approach is based on the relative autonomy of enterprises, which in turn stems from the relative isolation of the basic components of the national economy, i.e., business enterprises, commodity manufacturers. We call the principle whereby an enterprise draws on its own revenues to pay for its expenses self-financing. The significance and purpose of this principle do not consist solely in the fact that an enterprise is supposed to meet its current operating expenses by drawing on its own earnings. The application of this principle is dedicated to seeing to it, especially during the present era of the scientific and technological revolution, that gross earnings are also used to meet expenses associated with the expansion of an enterprise, capital expenditures, and expenditures on scientific research work within an enterprise's particular field of endeavor. This is at the same time an expression of the ambitious and increased direct responsibility of an enterprise for its modernization and growth.

Credit funds also come into play in conjunction with the use of an enterprise's own funding sources. As far as the principles of khozraschet are concerned, consideration may be and should be given to the utilization of funds obtained from the state budget only after these two categories of funds have been exhausted.

3. By this we do not mean to compare the 1978 experiment with the economic reform of 1960 not only because of the fact that the approach taken at that time was systematically and methodologically different, but also because of the fact that today's national economy differs from that of 1960 in terms of its structure and rate of growth.

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Profits should be the main source of khozraschet funds that is to be drawn upon to meet the expanded capital replacement needs of enterprises. The degree to which profits are utilized in this manner is a measure of the successful application of the principles of khozraschet. According to the statistics for the 1976 state budget, profits covered barely 20.9 percent of the total financial requirements (working capital and investment capital) of centrally administered enterprises, and, as a result of the large volume of income redistribution achieved by means of the state budget, 40.9 percent of these total financial requirements was covered by subsidies from the state budget. Miscellaneous needs were met by depreciation allowances at a rate of 23.7 percent and by credits at a rate of only 14.3 percent.

There are two ways to put profits to work for the financing of capital construction.

The first technique can be used in conjunction with any scheme for the centralization of capital construction policy along lines laid down by the plan itself so that the categorization of capital projects under the terms of the plan does not correspond to categories of funding sources; this means that even centrally administered capital projects can be financed in a decentralized manner by drawing on an enterprise's own sources of funds.

The decentralized financing of capital construction, i.e., khozraschet financing based on the use of intraorganizational funding sources, does not conflict with the requirement calling for the centralized management of capital construction, for which provisions must always be made in one form or another in the national economic plan.

From this standpoint, then, it is possible to broaden the scope of the decentralized financing of capital construction; indeed, this can be done without in any way impinging upon the central obligations and rules of individual branches or enterprises.

The other way to make increased use of profits is by establishing a closer relationship between categories of capital projects and the source of funds that are tapped to finance these projects, as was done in 1976 with the establishment of the small-scale enterprise capital investment fund, the thrust of which was greatly extended in 1978 in the form of the comprehensive experiment. In this case financing mechanisms became planning mechanisms as well. The second question has to do with the extent to which this khozraschet financing arrangement was put into practice. This may be a question of scope, which in terms of the number of enterprises involved was not very noteworthy and hence not very effective, but it may also be a question of the fact that this scheme violates the principles of centralized management.

The CSSR has considerable experience in dealing with this problem. The methodology of the 1959 plan created separate areas of centralized and decentralized capital construction. Centralized capital construction was

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supposed to set the main proportions for the balanced growth of the national economy.

For example, within the jurisdiction of the Ministry of Construction in the building industry branch certain kinds of machinery and equipment, which were listed in an annex to the plan's methodological instructions, were the subjects of centralized capital construction policy. At the same time, these provisions were intended to serve strictly as general guidelines. Other major building projects that have an important impact on the growth of the national economy or for any other reason dictated by the public interest could also be classified as falling within the jurisdiction of centralized capital construction policy. Decisions to classify such building projects as targets of centralized capital construction policy were always made on a case-by-case basis, usually in response to recommendations made by appropriate central organs. All other building projects were covered by decentralized capital construction policy.⁴

This kind of ratio between centralized and decentralized capital construction led to disproportions in the economy's growth.

After 1959 the norms governing enterprise material self-interest were supposed to serve as the most important mechanism of decentralized khozraschet financing. In essence, these norms defined the limits of an enterprise's financial base, since they constituted the source of funds to be used for the financing of both working capital and fixed capital expenditures. At the same time they served as one of the principal economic incentives by means of which enterprises were supposed to encourage to take a direct interest in their own sustained growth, in the setting of high plan targets and the maximal fulfillment of these targets, and in the increasingly better satisfaction of social needs. Enterprise material self-interest norms were also supposed to serve as a mechanism for setting proper proportions in the national economic development plan and for strengthening and enforcing these proportions, especially in the area of capital construction. An interdependent relationship was established between the payment of an enterprise's operating expenses and its earnings performance. The application of these norms presupposed a certain amount of functional and organizational stability. To the extent that the national economy was affected by unexpected influences (in the area of foreign trade for example) which disrupted this stability, provisions were also made for the taking of emergency corrective measures, including measures of a directive nature.

However, in responding to the needs of individual enterprises and branches this principle was not put into practice in a manner that coincided with the actual onset of fluctuations and problems or in the manner provided for pursuant to appropriate government resolutions.

4. During the period 1959-1965 the share of centralized capital construction in the total volume of capital construction in the state sector of the CSSR fluctuated within a range of 59.9--70 percent.

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As sources of financing to pay for capital construction costs and the costs of general overhauls first consideration was given to utilizing a portion of the accrued profits quota share, or dividends, and the depreciation quota share. Other typical, supplementary sources of financing might take the form of capital construction credits, subsidies furnished by higher-ranking organs or by the state budget, idle internal working capital, sales earnings and returns from the retirement of unnecessary or idle fixed assets, or unspent funds left over in capital investment accounts.

The lessons that were learned from the application of this methodology in the area of decentralized capital construction up to the end of 1961 showed that under these circumstances it was necessary for organizationally superior organs to do a more thorough job of carrying out their performance review duties in connection with capital construction planning in order to enhance the efficiency of capital construction activities and, consequently, in order to begin to enforce compliance with khozraschet management practices on the part of economic organizations.

The problem of the proportions and ratios between centralized and decentralized capital construction has not yet been resolved. In essence, the task of insuring the proportional growth of the different branches of the national economy has been relegated to the realm of decentralized capital construction policy. But this was not the right thing to do in view of the provisions and nature of decentralized capital construction.

The 12th Congress of the CPCZ decided to place capital construction and the planning and design of capital projects under strict central control.

In view of the circumstances that existed during this period this course of action proved to be correct, since it cleared up the problems that resulted from the breakdown of central authority in the management of capital construction.

But the measures that were taken in accordance with this policy were to a certain extent one-sided, since they failed to take into account the valid aspects of khozraschet management that are also applicable to capital construction.

This is precisely why we believe that the lessons learned by the CSSR during the 1960's in the area of setting capital construction financing quotas need to be studied with special care both because of the fact that the concept of quotas has been rightly incorporated, among other places, into the system for the financing of capital construction during the Sixth Five-Year Plan and is now being given broader substance within the context of the comprehensive experiment and also because of the fact that we want to avoid repeating the mistakes that were made during the 1960's.

In our view one of the principal flaws of the System of Long-term Material Incentive Norms of the 1960's was the resulting distortion of the proper

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proportional relationship between decentralized and centralized capital construction, a problem which also had an impact on the degree of thoroughness that was achieved at that time in spelling out the system's conceptual framework and on the feasibility of plan targets.⁵

The basic proportions governing allocations of capital-forming resources in the national economy must be set by centrally determined capital construction policy and not by decentralized capital construction policy over which the center has little control. As we pointed out before, to be effective the proportional relationships between decentralized and centralized capital construction should be completely reversed.

After profits, depreciation allowances constitute the second source of khozraschet financing.

Depreciation allowances are the financial manifestation of the process through which fixed assets become used up and devalued. The degree to which these assets are used up has an impact on the total costs of goods produced and also performs a capital accumulation function. Depreciation allowances are therefore an important tool of khozraschet management, primarily in terms of costs and, hence, the estimation of costs, but also in terms of the replacement of fixed assets and the financing of this replacement process.

There are essentially two methods that are used to determine depreciation allowance quotas. According to the first method, which is used in this country, these quotas are set by central authorities according to categories of fixed assets, whereas under the terms of the second method these quotas are set by central authorities for entire branches.

Both the extent to which the system of depreciation allowance quotas corresponds to optimal definitions of the physical depreciation of fixed assets and the nature of the correlation between the depreciation of fixed assets and plans for their replacement will have an important impact on khozraschet.

The advantages of the system of quotas set according to categories of fixed assets as opposed to the system of industry-wide, aggregate quotas are most evident in light of the fact that the former system makes it possible for

5. It should be realized that the application of khozraschet management principles has to be approached in a different way in an economy where demand exceeds supply. In situations such as this it needs to be seen that even where khozraschet is concerned the machinery of vertical relationships can be used to some extent to help solve problems. Thus, we cannot rely solely on the machinery of horizontal relationships, which would be more in line with the requirements of khozraschet. Under present conditions too it might be useful to bear in mind this correlation between khozraschet and changing economic conditions.

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central authorities to set these quotas in a relatively accurate manner. However, it is precisely in this context that this system also reveals its disadvantages. Central authorities find this system rather unwieldy, since it cannot take into account all changing conditions such as decreased or increased demands for general overhaul work, the need to speed up the replacement of some kinds of fixed assets as a result of technological progress, requirements written into capital construction plans with respect to simple capital replacement, and so on.

Capital construction planning experts do not always take into account the fact that some enterprises make better use of their machinery stock, and, ignoring the faster rate of this machinery's physical deterioration, they do not make provisions that will enable these enterprises to purchase more machinery. These complex issues may eventually be placed on our working agenda and subjected to a thorough investigation.

The CSSR has adopted a measure as a part of its depreciation allowance policy whereby it is not permitted to claim deductions for fully depreciated fixed assets (but in price schedules issued since 1977 assets have been depreciated in excess of 100 percent).

We think that Czechoslovakia's depreciation allowance policy is theoretically sound, since it can hardly be argued that it is right to continue to claim depreciation allowances for an asset which is already fully depreciated and which no longer exists for accounting purposes. Indeed, it is argued to the contrary that to do so would be tantamount to giving enterprises an incentive to maintain obsolete fixed assets, since fully depreciated and working fixed assets would not be encumbered by the cost entry represented by depreciation allowances. However, this may be the case only in situations where the parameters of new fixed assets are no better than the parameters of old fixed assets that have already been fully depreciated. Regardless of this, however, the fact remains that we are faced with the general problem of how to go about retiring old and obsolete fixed assets, assets which at the same time are already fully depreciated. So, insofar as it would no longer be permitted to claim depreciation allowances for fixed assets in excess of 100 percent of their nominal value, which would be the right thing to do in our view, we would then think that it would be possible for central authorities (and this would also be consistent with the principles of khozraschet management) to apply sanctions to discourage the continued use of fully depreciated fixed assets in the form of a penalty tax, which would apply only to fully depreciated and, hence, obsolete fixed assets. In contrast to depreciation allowances, this penalty tax should be charged not to costs, but rather to gross earnings so that it would have an impact on payments into material incentive funds.

This is related to another specific feature of Czechoslovakia's depreciation allowance policy. Depreciation allowance quotas do not include the cost of general overhauls. General overhauls are financed in the same way as normal maintenance by drawing on working capital funds. There are various opinions

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about this. There can be no doubt but that Czechoslovakia's present system in this regard is a simple one. However, we think that in the interests of khozraschet, in the interests of intelligible costing, and, finally, in the interests of efficiency, this system is not necessarily satisfactory in all of its aspects. To be sure, nearly one-third of all functioning fixed assets are fully depreciated, but at the same time they are still in service and they are still undergoing general overhauls.⁶

In our opinion the validity of this policy is questionable both from the standpoint of costing and also from the standpoint of financial management. Therefore, it seems to us that it would be advisable to consider increasing depreciation allowances by whatever amount is chargeable to general overhauls.

In connection with the increased emphasis on the tapping of internal funding sources for the financing of capital construction, as an important prerequisite for the application of khozraschet management principles, a practical problem arises having to do with the optimal structure of an enterprise's internal financial base, especially in terms of the normative standards governing profits, depreciation allowances, and, something which can also be considered in this context, investment credits.

This problem is a product of the natural imbalance between material and financial resources in the realm of capital construction. For example, if they are not the beneficiaries of capital development investments, new enterprises cannot claim depreciation allowances chargeable to the period in which they were under construction.

This is the first reason why it is objectively necessary to undertake a general redistribution of these resources, which in the case of many enterprises will have an impact on both profits and depreciation allowances.

In our view the second reason which is making it increasingly necessary to redistribute depreciation allowances, especially under present conditions, is the economic nature of profits and depreciation allowances.

As a source of financing that is also used in the realm of capital construction, profits should be viewed as a stimulative mechanism, especially so at the enterprise level. It is in this sense that the redistribution of profits, regardless of whether this is accomplished through the state budget by means of progressive taxation or through the VHI's by means of supplementary levies, should be curtailed, and precisely because of their wide-ranging stimulative potential profits should be allowed to play a larger role in the financing of capital construction.

6. Novotny, Karel. "Pricing Fixed Assets Under the Terms of the Program for Comprehensive Restructuring of Wholesale Prices," FINANCE A UVER, No 12, 1977.

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Insofar as long-range rules are laid down to govern the structural utilization of profits, depreciation allowances, and investment credits in the financing of capital construction, it would then be possible to give enterprises partial or complete control over the disposition of depreciation allowances, regardless of whether or not it is planned that these funds will be spent in a given current year, and to regulate the spending of these funds in accordance with the rules that apply to the use of these funds in future years. This would take care of the third reason why depreciation allowances should account for a smaller share of funds used to finance capital construction so that a larger role could be played by investment credits as a capital construction funding source in cases where no excess profits are available for the financing of capital construction. Accordingly, profits and investment credits may be regarded as the principal funding sources for the financing of capital construction in economic organizations. Depreciation allowances may be drawn upon as a funding source for the financing of capital construction only after all resources in the form of profits and investment credits have been used up.

As a source of funds for the financing of capital construction the state budget plays an indispensable role, and some priority capital projects are paid for either entirely or at least partially with state budget funds. As far as khozraschet relations are concerned, state budget funds are always used whenever internal funds or credit are not available.

For various reasons, long-term investment credits supplied by banks are not fully appreciated or utilized.

Under socialism credit is a function of the existence of planned commodity-monetary relations. The need for credit arises due to the circulation of capital among khozraschet organizations and due to irregularities in this circulation process. During the course of this circulation process the capital of khozraschet organizations invariably is transformed into money. Moreover, current accounts receivable and payable are not always paid up. An enterprise draws on its revenues to gradually build up a depreciation fund, but this fund is also subject to redistribution. To be sure, the circulation of capital is not confined to the business enterprise sphere, rather capital is circulated with a view to the redistribution of the national income (or social product) through the various channels of the financial system. Funds which are temporarily not tied up in the circulation of capital among socialist khozraschet enterprises (which are of course supplemented by other kinds of funds, e.g., private funds, idle funds in the state budget, and so on) are used to build up reserves in accordance with the credit plan for the granting of all kinds of credits, also including investment credits.

Therefore, under a socialist system credit is more than just an objective necessity dictated by the actual circulation of capital in the national economy. Credit per se is moreover a prerequisite for the proper organization of this process of capital circulation.

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By its very nature the khozraschet status of socialist business enterprises presupposes, in addition to a degree of relative autonomy, that the state will have some say in the conduct of enterprise affairs. Investment credits are also one of the tools used by the central government to exercise this control and bring its influence to bear. The granting of investment credits on a broader scale may be regarded as a direct concomitant of the expansion of the khozraschet authority of business enterprises.

It was not until after 1967 that investment credits began to be used on a larger scale in the state sector of Czechoslovakia's economy. In 1967 the total value of outstanding investment credits came to Kcs 13,41 billion, whereas in 1970 this figure rose to Kcs 53.32 billion, and in 1975 it went as high as Kcs 74.99 billion.

In addition to performing distributive and investment protection functions, investment credits can also be used to perform a very wide range of control functions. Indeed, we are of the opinion that investment credits are supposed to complement the performance review powers exercised by enterprises in the area of decentralized capital construction into line with the needs of society as a whole. In this sense investment credits are one of the tools used to promote general social interests.

Investment credits perform control functions in two ways. On the one hand, this is done by making certain demands that make the granting of investment credits contingent upon the likelihood of increased efficiency, and, on the other hand, this is accomplished by virtue of the fact that an investment credit may not be granted at all or only in a limited amount. The criteria that govern the allocation of investment credits make it possible to exercise control over the way in which funds are spent that are otherwise not subject to central control even if these funds are dispersed in several different directions. Moreover, these criteria make it possible to exercise control in the area of fixed assets utilization, especially in terms of the manner in which these assets are utilized and the quality standards that should be adhered to in deciding on the purchase of new fixed assets, as well as to assess the recoverability of investment credits. The control functions of investment credits come into play not only in connection with the granting of these credits, but also in connection with their repayment. Thus, investment credits are not only exceptionally wide-ranging, but also exceptionally effective control mechanisms. The stronger emphasis that is being placed on material incentives for enterprises, work collectives, and individual workers is making it more necessary than ever before for enterprises to be mindful of all of these aspects of investment credit policy.

It is our opinion that as far as the impact of interest rates are concerned the effectiveness of investment credits could be increased by taking a more selective approach whereby interest rates will be raised under circumstances which are appraised in a critical light in terms of the public interest and whereby interest rates will be lowered under circumstances which are appraised in a positive light in terms of the public interest.

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This kind of selective approach will have an impact on the incentive of enterprises and individual workers, as we have seen as a result of the limited application of this technique since 1976 in connection with the fulfillment of the Sixth Five-Year Plan.

For example, such shortcomings as the substandard planning and execution of capital construction projects, the squandering of resources, and the misuse of fixed assets are grounds for economic sanctions in the form of higher interest rates.

In recent years the economic literature of the CEMA countries has been placing greater emphasis on the increased efficiency of credit financing.

On the other hand, some theoreticians and practical experts as well express doubts about the effectiveness of investment credits, since they claim that they necessitate increased paperwork and, in comparison with budgetary financing methods, do not produce better results. And even though they do print out the positive aspects of investment credits, they still ignore the overriding need to utilize investment credits as a source of funds for the financing of capital construction.

We think that it needs to be stressed that investment credits are supposed to work in tandem with the laws governing the planned and balanced growth of the national economy. Under certain conditions investment credits might even prove to be useful as technical planning instruments, and to some extent they could be used, for example, to take the place of the "automatism" of the current investment limits, most of which are scheduled and assigned without any attached conditions whatever.

By granting investment credits and regulating the manner in which they are spent or repayed the banks have access to an important instrument for exercising social control, in the broadest sense of the term, over the formation and disposition of social resources.

The principle calling for the planned development of the socialist national economy in accordance with the dictates of social efficiency also presupposes that economic growth will take place in those areas where internal resources are not available, where no arrangements can be made for the redistribution of resources, and where, based on the rules of banking policy, investment credits cannot be provided at all or to the full extent that is required.

In these cases we deem it to be advisable that the state budget should resort to the granting of investment subsidies in order to contribute to the financing of capital construction. We refer to this principle which justifies the role of the state budget in capital construction as the revenue-based principle, and we consider it to be a useful supplement to khozraschet financing. In certain respects the financing of capital construction by

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drawing on the resources of the state budget in accordance with the revenue-based principle is compatible with the principles of khozraschet management.

In addition to the revenue-based principle, there are certain other reasons, equally proper and even desirable, which justify the financing of capital construction with state budget funds. This is primarily in reference to subsidies for capital projects spelled out in the budgetary plan, for civil defense, and for military research and development as provided for in the appropriate special sections of the plan.

Disparities in the infrastructural distribution of plant and equipment among khozraschet organizations constitute another one of the reasons why the state budget must answer the call to provide funds for the financing of capital construction in these organizations. In a socialist society this reason justifying the allocation of capital investment subsidies from the state budget to khozraschet organizations is an integral element of the overall thrust of the economic policies of the socialist state.

One of the important tasks endorsed by the 15th Congress of the CPCZ calls for an increase in the efficiency of fixed capital stock and, accordingly, for the resolution of problems in the area of capital construction. The fulfillment of this task means that we will have to address ourselves to some very complex problems. In this article we have indicated some of the important ways and techniques by means of which we can improve the capital construction process with respect to the financial requirements of khozraschet organizations.

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