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# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

(FOUO 8/80)

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EAST EUROPE REPORT  
ECONOMIC AND INDUSTRIAL AFFAIRS  
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CZECHOSLOVAKIA

TRENDS IN AGROINDUSTRIAL INTEGRATION MANAGEMENT

Prague POLITICKA EKONOMIE in Czech Aug 80 pp 781-789

[Article by Frantisek Zahlava: "Trends in Agroindustrial Integration Management"]

[Text] Scientific-technical development--as the determining factor in the production process--places new demands on economic management, the purpose of which is to utilize the advantages of socialism for the balanced growth of society. The study of socioeconomic conditions and the relationships of scientific-technical development is the starting point for all considerations regarding increasing the efficiency of social labor. The dialectic of the development of productive forces and production relations at the same time dictates the necessity of analyzing and managing both processes as a unified system, subordinated to the realization of the goals of socialist society.

Changes in the character of cooperation and integration are a flexible element of the development of individual aspects to production relations which stem from the level of development of productive forces. From the originally two-sided relations tied to parts of the production process, they gradually expand to all sectors of economic activity, all phases of production, and pass through on the basis of many-sided relations. They thus constitute the conditions for the development of new forms of the organization and management of production in dialectical connection with the advance of the socialization of labor and forces of production.

From this stems the significance of the social management of the cooperative and integrational processes and the improvement of the economic relations among economic entities and branches of the national economy, with a view to increasing the accountability and commitment of the participating elements of the production process in guaranteeing the goal-directed functions of social production.

A special place in the integration processes and their management is occupied by agroindustrial integration as a form of the socialization of production corresponding to developed socialism, accompanied by the

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gradual overcoming of socioeconomic differences between the working class and the cooperative peasantry, as well as the merger of two forms of socialist ownership. The study of the new legalities of socialist production, and the development of economic relations in the process of agro-industrial integration which is connected with it, has become a pressing task of economic science, the solution of which is contributing, in the current stage, to an increase in the efficiency of the management of the production process of the national economy and to the implementation of the Leninist cooperative plan.

The level which has been achieved in the elaboration of the problem is a reflection of the complexity of the related theoretical and methodological questions, but also of the level and dynamics of the material conditions of the development of agroindustrial integration. In the current stage, the microeconomic expression of agroindustrial integration is the formation of agroindustrial production units and the merger of various forms and directions, while at the macroeconomic level it is the structural optimization of the development of branches which have been participating in the production of agricultural raw materials, their processing, and on the implementation of final production.

#### Agroindustrial Integration and Scientific Technical Progress

The immaturity of the manifestations of agroindustrial integration leads to modifications of viewpoints even in issues of the basis and definition of the framework for the development of economic-organizational ties and socioeconomic relationships within the agroindustrial complex (hereafter ZPK) which is being formed within the national economy. It would not be correct to limit this to the ties between agriculture and the foodstuffs industry, because a significant trend of the current scientific technical revolution is a shift in the center of gravity of expended labor value added to the preproduction stages. This means that the social effect of agroindustrial integration is conditioned by the guaranteeing of a rapid transferral of the newest results of the development of science and technology to agriculture, above all from branches assuring the production of the means of production.

These branches are displaying the most rapid dynamism among the ZPK's of the CSSR, as demonstrated by these data of the interbranch accounts of the Federal Office of Statistics.

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Production flows among ZPK's (including imports)	1967	1973	1977	Index 1967/1977
		millions of Kcs, in use prices		
1. Deliveries from industry to agriculture	14,051	23,429	30,176	214.8
2. Deliveries from agriculture to industry (all sectors)	35,470	46,437	59,446	167.6
of which the food- stuffs and delicacies industry received	30,791	38,079	47,908	155.6

Industry's share in the formation of agricultural product already reaches 74 percent, while the share of labor value added in agriculture has fallen to 26 percent. By the same token, in the material consumption of agriculture the industrial share (56 percent) predominates over the agricultural share (44 percent). The necessary systematic concentration of the newest results of science and technology, their further development and elaboration into the form of new production technologies and the corresponding organizational and management systems, presupposes the unification of the activity of the research, development and production-technological base of all sectors guaranteeing a relevant production process.

It is also possible to conclude from an analysis of development trends of the production-economic ties within the ZPK's that with the growth in the forces of production and with the progress of the socialization of production the forms of the manifestation of this complex will undergo changes which signify a strengthening of the element of wholeness of the production process assembled under them. The need for the planned management of the objectively occurring changes in the fundamental management components of individual elements of the ZPK's, with the goal of increasing their participation and commitment to the fulfillment of the social function of the complex, is related to this.

Even though industry, which is delivering the means of production, is not yet fulfilling the production-organizational function in agriculture, its influence of technology, and thereby as well on the organization of agricultural production, will grow constantly with the development of science and technology.

Scientific-technical development in agriculture has reached a level which makes possible the technological and organization shift of agricultural production into a special type of industrial production. It is not only the process of production and circulation which is changing, but also the additional phases of production (exchange, distribution and consumption). At the same time, these may be considered the material basis of the

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integrational processes and overall structural changes within the ZPK's. The improvement of the economic relationships within the ZPK's is therefore closely connected with the social management of the scientific-technical development of agriculture, with a view to the solution of the mutually related technological, economic and social objectives of this sector and of the whole ZPK. In this sense, the socioeconomic impact of scientific-technical development in agriculture is taking on an ever-broader character.

The evaluation of the economic efficiency of scientific technical development in agriculture requires on the one hand an accounting of the social costs at all levels of the production process, and on the other hand the determination of the broader connections and results of new technologies over time and space, including the potential negative side effects on the quality of production and in the reproduction of the biosphere.<sup>1</sup> In this manner it is possible to selectively expend resources on the most optimal directions of technical development and planning variants. In the opposite case an evaluation can purport to be favorable of a variant which minimizes the volume of direct labor costs and capital assets at the expense of higher costs, such as losses in natural-ecological resources. This means that the requirement of the fundamental economic law of socialism cannot be adhered to by seeking an immediate economic maximum, but from finding the optimum from the point of view of a long-term perspective.

The method of natural resource utilization should be consistently understood as a component of the system of the management of social development, that is from the viewpoint of fulfilling all functions, from which it is possible to separate the production function in particular, related to the raw material and biological base, water management and nonproduction functions. From the practice of a narrowly defined branch evaluation which manifests itself, for example in emphasizing criteria for the growth of labor value added productivity in a branch, it is necessary to move to an evaluation based on criteria of the socioeconomic efficiency of overall social production.

The current level of scientific-technical development in Czechoslovak agriculture has altered numerous qualitative aspects of the material-natural side of the production process. Their results have an effect on the phenomenological forms of production relationships, and condition a higher level of their maturity.

It is not only a matter of changes in the relationships among branches, the manifestation of which is the formation of national economic complexes, but also of corresponding changes in the socioeconomic relationships within branches, manifested by newer and higher forms of the socialization of production, i.e. in particular new and higher forms of concentration, specialization, cooperation and integration. It must be pointed out in this regard that the effect of scientific-technical development in agriculture, and the related processes of concentration and production



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specialization, cannot be based solely on an optimal combination of factors of production from the viewpoint of the production-economic results of the management of individual enterprises. The achievement of greater national economic efficiency is dependent on the compatibility of enterprise specialization with the requirements of the relocation of agricultural production with a view of natural conditions and to the connections with the processing industry and consumption centers. In this sense the processes of sectoral and territorial division of labor come together, modified by the differentiated conditions of individual production sectors.

The 15th CPCZ Congress emphasized the requirement for the social management of these processes: "It is always necessary to have in mind that every step toward a strengthening of concentration, toward the development of specialization and cooperation, must be in accordance with that basic quality which we seek in our overall activity; it must contribute to higher efficiency for society and cooperatives and deepen socialist production relationships in our agriculture."<sup>2</sup>

Under conditions of a correspondence between the forces of production and production relationships in a socialist society, the state and cooperative forms of socialist social ownership provide a broad area for the improvement of production relationships. The basic causes and factors speeding up or slowing down the development of interenterprise cooperation and agroindustrial integration stem not only from the contact of two forms of socialist ownership, but also from their internal development. Interenterprise cooperation and agroindustrial integration develop the state and cooperative forms of ownership and at the same time bring them mutually closer together.<sup>3</sup> They are also closely connected with an increase in the efficiency of all components of the system of planned management in relation to the optimal utilization of natural, material, labor and financial resources.

Concept of Combination of Territorial with Vertical Structure

Proceeding from the needs for solutions to the aforementioned tasks, the analysis of trends in the process of the socialization of production is focusing on the conclusion that the possibilities for cooperation and integration are not exhausted by the framework of cooperative groupings (having an average area of roughly 7,000 hectares of agricultural land). The need to develop both processes at a higher level--in cooperative boroughs (with an average size of roughly 25,000 hectares) and administrative districts (with an average area of 60,000 hectares)--is already evident, at a given level of development of production forces, in livestock production, in the area of food and plant preservation and in other activities having the character of production services, and additionally in contacts between agriculture and industry.

The greater demands on management forms within the framework of such territorial agroindustrial complexes has its territorial and branch aspects.

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The deepening division of labor in the interest of the quantitative development of production requires the application of elements of unified vertical management, whether from the branch, professional, or production viewpoint. On the other hand, ties are expanding among specialized enterprises of a specific territorial unit during the resolution of production, economic and social problems.<sup>4</sup> There is a strengthening of the elements of wholeness of these ties as an attendant phenomenon of the social coordination of specialized activities under conditions deepened by the division of labor. These viewpoints, together with additional requirements for the management of the production processes, justify the opening of the system of territorial administration to vertical ties guaranteed by the relevant agencies of branch management. Such a solution makes possible the corresponding development of territorial and vertical bonds in accordance with needs for the development of the forces of production and production relationships within individual branches and ZPK's as a unit.

The development of the management system in the ZPK is a long-term task. The emphasis on the long-term character of this process includes the elaboration of relevant measures from a prospective viewpoint.

In this sense, "Principles of the Further Development of Concentration and Specialization in Agricultural Production and in Integrational Relations with the Foodstuffs Industry in the Sixth Five-Year Plan," approved by the CPCZ Central Committee Presidium and the CSSR government Presidium in 1975, directs the Ministries of Agriculture and Nutrition "...to verify experimentally the perspectives of the further development of concentration and specialization and their organizational forms and interenterprise relationships, and to join them with a unified plan of scientific-technical development."

We perceive one of the prospective possibilities for the rational use of the natural, material, labor and financial resources of the ZPK on the microeconomic level to be the formation of a production economic system functioning on the basis of interenterprise khozraschot within a broader territorial unit than covered by the cooperative groupings. This presumes an increased influence of individual ZPK elements on the development of agricultural production. At the same time it must be taken into consideration that the sectors of the foodstuffs industry apply in many instances differing influences, even within the framework of a single agricultural production sector (for instance the differing demands of enterprises of the milk and meat processing industries on the development of cattle husbandry). In order to synchronize these influences under concrete production conditions, and to guarantee a unified influence for management directives, it appears reasonable to integrate the activities of agricultural and industrial enterprises also on a territorial scale (within the framework of a combination at the level of the administrative district, that is, region).<sup>5</sup>

Such combines would include all socialist agricultural enterprises of this broader territorial unit, along with a complex of production services,

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and would assure the linking and gradual integration of agricultural development with supplying and processing sectors of industry. It would be founded on the principles of the Leninist cooperative plan, which has been verified in the practice of socialist construction, and to which belongs voluntary cooperation, the retention of economic status by the individual enterprises entering the cooperative, and democratic centralism in the management of its activity.

We perceive the socioeconomic significance of such combines to be their ability to balance and to unify gradually the production-economic conditions of specialized production during specific production stages, as well as the ability to apply more consistently the socialist principles of the planned and proportional nature of management. The unification of production-economic conditions would fulfill at the same time an important function in the formation of the prerequisites for additional progress in the concentration and specialization of production.

Given the varied character of production conditions in Czechoslovak agriculture, the gradual balancing of the production-economic conditions of management is one of the basic advantages of combination. The possibility of improving allocation of the objectives of the state plan through a more consistent integration of its material directives with economic links is also one of these advantages. The possibility of fuller subordination of economic instruments to social needs under the concrete territorial conditions of production represents the potential for increasing the production activity of production resources.

The formation of new economic relationships in the sphere of immediate production is understood as an organic component of the improvement of the system of planned management of the national economy in the period of the current scientific-technical revolution. It is in accordance with the task "...of further deepening the unified approach to the planning and management of the ZPK at all management levels and to verify experimentally its progressive forms, while at the same time verifying suitable economic systems which support the process of integration between agriculture and the foodstuffs industry, including combine types."<sup>6</sup> The above concept underlines the significance of a comprehensive systemic approach to planning and management which respects the mutual connection of the development of the linked branches, and which at the same time makes possible the assured synchronization of all parts of the management system. The achievement of greater efficiency in planned management in the relevant sector presupposes the inclusion of all phases of the production process, i.e. from scientific development to design activity, capital investment and production itself, and circulation from exchange to distribution and consumption; the comprehensive management of economic activity in its mutual connections with social and overall politicoeconomic processes, as well as the conservation of the natural environment; the flexible reaction to newly forming conditions and objectives of the production process related to scientific-technical progress and limited resources, i.e. with

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the requirements for the development of factors of intensive growth, which assure an increase in the efficiency of social production on the basis of higher labor productivity and the productive activity of capital assets.

The improvement of economic ties and proportions in the indicated directions would also enable a lowering of production losses, an increase in the quality of raw materials and final products, a shortening of the period of their circulation, and more consistent flow of supply. Excess capacity in this area exists, above all, in places of contact between individual phases of the production process.<sup>7</sup> Their discovery and utilization is realizable through a reduction in multiplicity, i.e. through a simplification of intersectoral supplier-consumer relationships through changes in the arrangement of the production-technical base which would make possible the vertical integration of interrelated stages in the production of specific final products into production and marketing verticals. Therefore, in our view, strengthening elements of branch management within the framework of the proposed territorial agroindustrial combinations ought to take place in connection with a higher management level.

The formation of new organizational structures for the material-technical base and the management of production, which simplifies related elements of the production process during the assurance of final production, is one of the objective trends in the development of the forces of production and the growth of the level of their socialization. It is also a manifestation of the planned character of socialist economics implemented through the formation of proportions between the volume and structure of social labor on the one hand, and the volume and structure of social needs on the other.

The subordination of social production to the satisfaction of social needs is expressed by the diversion of relevant proportions from the needs for output of final production to the preceding elements of the production process.

By utilizing findings concerning the activity of industrial and scientific research combines in the USSR, the conditions are being formed in the CSSR, in accordance with the Directives for Economic and Social Development from 1976 to 1980, approved by the 15th CPCZ Congress, for the change of economic production units (VHJ), i.e. the middle management element, into the basic element of management. This process is taking place as well in the VHJ's of the foodstuffs industry, which have to date been administered according to the sectoral and, partially, according to the combine principle, however so far without perceptible influence on agricultural production or on the additional elements of the production process which assure the outputs of final production.

Production conditions of a material-technical character are developing in individual sectors of agroindustrial production in a differentiated manner in connection with the development of the forces of production and changes

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in the character of production. In addition, the prerequisites are gradually forming for a closer production-economic unification of specialized production with the application of unified management or coordination.

The creation of these prerequisites, in our opinion, establishes, in perspective, the justification for the appearance of unified production-economic systems of the agroindustrial combine type at the level of the national economic ZPK as well, which would integrate territorial combines with industrial, commercial and other organizations responsible for the production process in the totality of specific agroindustrial production. In the current stage these prerequisites are being created especially in the sectors for the production of animals for slaughter and eggs, and the raising of fruit, vegetables and several other special plants.

The socioeconomic importance of such a production-economic system may be perceived in the unification of the commitment tying the constituents of the ZPK to final production, in the development of direct cooperative and integrative relationships of the member organizations, and the relevant material-technical basis of production from the viewpoint of social needs, as well as in the possibilities for increasing the efficiency of planned management.

New Views on Effect of Plan and Economic Instruments

The effect of management activity of the proposed production-economic systems within the framework of the planned management of the national economy is conditioned by the degree of khozaschot commitment of all the constituents to the economic performance of the unit. This presumes the elimination of existing differences in the systems for economic incentives in agriculture and in industrial sectors, and their unification with a view to the social requirements for the quantitative and qualitative development of final production.

The achievement of harmony between the position of the higher economic unit and the actions of its parts under the conditions of the retention of the economic status of the enterprises and institutions justifies the application of khozaschot within the framework of combines of a territorial and national economic character. The need for a harmonious unification of the sectoral and territorial management viewpoints at the same time presupposes that plans for combine development become components of plans for economic and social development at the national economic level as well as at individual levels of the state administrative hierarchy. At the national economic level the leading position belongs to long-term plans which define the directions and tempo of scientific-technical progress and the influence of socioeconomic factors.

The creation of the optimal proportions in the development of individual constituents of the ZPK which belong to various institutions of central administration, presupposes in our view the assurance of an increased role

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for central planning in the process of distribution and redistribution of social resources. In this sense, the role of the central planning agencies would be to evaluate the development plans of the combines and their mutual coordination, particularly in relation to the plans of the other sectors of the national economy.

The effectiveness of the system of planned management in the guaranteeing of the needs of socioeconomic development is influenced by the degree of compatibility of its components and the smoothness of the transformation of national economic approaches to the direct production sphere. The unequal level of socialization of the forces of production and labor in individual national economic sectors establishes at the same time the necessity for modifying general principles, approaches and objectives. In the ZPK it is above all a matter of the more effective adherence to social priorities and the creation of balanced proportions in the production process by means of closer economic relationships among the linked constituents. Making their activities compatible according to the principles of democratic centralism requires the management of the production process from production to consumption with the aid of a system of evaluative indicators and criteria which combine the social needs for quantity, structure and quality of production as well as the utilization of natural and overall production-economic conditions. The problem is being concentrated on the creation of harmony between the material-natural and the evaluative procedures of the ZPK. One of the essential requirements is the commensurate alteration of economic instruments for the conditions of production specialization, such as cooperative and integrational relationships.

Economic instruments related to the universal production structure of CSSR agricultural enterprises have been constructed with the intention of eliminating the influence of differing natural conditions of costliness and production-economic performance. Statistical data for the period of the past year show that differences in production costs under differing natural conditions have lessened under the influence of scientific-technical development and the intensification of production. On the other hand, the trend has continued towards a deepening of the differences in the economic level of production units within areas of comparable natural conditions and with comparable performances in production costliness. As a consequence of these trends, production costs of main products display a significant span of variability which is, however, under differing natural conditions bounded by almost the same limits:

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<u>Product</u>	<u>Production Zone</u>				
	<u>corn</u>	<u>sugar</u>	<u>potato</u>	<u>potato- oat</u>	<u>mountain area</u>
Wheat					
Production costs in Kcs per quintal					
lowest	55.70	36.70	42.00	46.40	45.50
highest	117.60	154.80	150.20	161.40	195.90
Milk					
Production costs in Kcs per liter					
lowest	2.30	1.80	2.10	2.20	2.50
highest	3.80	3.90	3.90	3.70	3.90

Source: JZD Statements, Research Institute of Agricultural and Nutritional Economics, Prague, 1974.

Under conditions of differing degrees of coverage of production costs, the structure of production and the degree of its specialization comes to the foreground as a factor influencing to a great extent economic performance, as shown by the following data.

Degree of Profitability of Production of Major Agricultural Products in the United Agricultural Cooperatives of the CSSR.

<u>Year</u>	<u>Wheat</u>	<u>Sugar Beet</u>	<u>Potatoes</u>	<u>Milk</u>	<u>Pigs for Slaughter</u>	<u>Cattle for Slaughter</u>	<u>Eggs</u>
1972	73.1	24.8	13.8	-7.9	5.9	8.8	19.4
1975	63.3	10.4	-10.5	-7.3	8.1	-0.7	24.9
1978	55.0	10.7	22.3	0	1.0	14.3	13.4

Source: Production Costs and Economic Performance of JZD in the CSSR from 1972 to 1978. Research Institute of Agricultural and Nutritional Economics.

It is a matter, therefore, of an improvement in the system of economic instruments by which rational relations in product profitability can be created. At the same time, we do not have in mind the assurance of a single profitability level for all agricultural products. The extent of profitability is not the sole criterion of how favorable specific production is for an agricultural enterprise. Production efficiency is determined as well by the amount of net income obtained per unit of the production base and per unit of labor costs. Besides this, the amount of realized gross income has significance for agricultural enterprises, and

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especially JZD's, connected with the requirements for work force utilization and the assurance of the necessary level of compensation for labor.

The creation of similar production-economic conditions in specialized enterprises is influenced by sectorally specific requirements and possibilities for the creation of production resources by means of individual economic instruments. The development of cooperative and integrational relationships in the horizontal and vertical directions determines for prices the task of more fully reflecting the socially necessary costs both of production and of processing of agricultural production, and of adhering as well to the qualitative level of the consumer's qualities of production. The goal is to strengthen the khozraschot commitment of enterprises of the agricultural production and processing spheres to an increase in the qualitative level of production.

An organic component of the problem is the stimulation of a rational allocation of agricultural production by establishing purchase prices and supplementary price instruments in relations which will create the essential economic conditions for the development of production under the most favorable conditions. The improvement of price formation in this direction is one of the paths for the movement of prices towards socially necessary costs, which serve as their objective basis.

The development of the material-technical base of agriculture, including the application of industrial methods of organization of production is creating the preconditions for the gradually more consistent application of the general principles of the system of planned management in this branch. The nature of the production process is becoming closer to the character of industrial production, above all under the conditions of the incorporation of several agricultural production sectors into highly specialized enterprises operating without land, and its social management must be freed from several practices necessitated by the peculiarities of agricultural production, among which is, for example, the functioning of differentiated rents.

The more rational placement of agricultural production from the viewpoint of natural conditions will lead to the relatively high specialization of whole areas in specific products to an extent which fully or to a large degree guarantees social needs. With this the extent of influence of differential rents will decrease even for a portion of the products of plant production, and purchase prices can be the source of a fuller coverage of production costs. The objectivization of a socially justified level of expended production resources eases the possibilities, under the above conditions, for utilizing norms of investment and labor intensiveness, as is the case with products produced in enterprises which operate without land.

The improvement of purchase prices, and especially their internal relationships, is creating important conditions for the development of



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concentration and specialization, as well as the achievement of the material directives of the plan regarding volume and structure. However, the wider connections of the effects of the prices of agricultural and foodstuff products in the overall social production process, which justify the need for the relative stability of their levels, limits the possibilities for a more fundamental alteration of internal price relationships. From this stems the significance of managing the production process with a view both to the costs of production and their relation to the provisions of social needs for foodstuffs within a rational structure, and to the utilization of production, and particularly natural resources. The alteration of the prices of the means of production and the differentiated utilization of economic instruments of a nonprice character represent an efficient path to the merging of product profitabilities in this sense.

The above considerations regarding the creation of more favorable links between plan goals and the effects of the economic mechanism may be linked as well with a more consistent application of the principle of reward commensurate with work within the combine framework. The progress of the development of cooperation and integration, as manifested in the economic relations among enterprises, reflects the overall trend of the evolution of forms of profit distribution from the realization of final production among the participants in the cooperation, leading from contractually agreed upon prices which lack a necessary degree of economic justification to cooperation prices which guarantee the one time economic balancing of the cooperation participants and, finally, to cooperation prices supplemented by the effect of the social, so-called balancing, fund.

Changes in economic-organizational links are related to the growing extent of agricultural production. Elements of integration are being strengthened in the form of the installation of common interenterprise production equipment and the quantitative and qualitative development of commonly organized production within the framework of a cooperative unit on the basis of common production and financial plans which are increasing their influence on agricultural production and their authority in relation to the individual cooperation participants. A trend is becoming evident of a merger of the character and principles of economic-organizational links and economic relations in cooperative and integrated production activities, and a strengthening of elements of the economic status of cooperating units of a combine nature. The extension of khozraschot relationships from the enterprise level to that of the combine does not mean a weakening of the khozraschot interests of enterprises and production collectives; it is in accordance with the increasing level of socialization of production.

It is possible, on this basis, to resolve a number of pressing problems concerning increasing the efficiency of the economic relationships within the ZPK, among which is the balancing of the production-economic conditions of specialized production. The distribution of the economic-financial effect of commonly organized production among the member

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enterprises according to their common production and financial plan is proving itself in social practice to be the basic form of this balancing. To this end common financial funds are being established to guarantee planned production, and which include the utilization of resources gained from levies from enterprise profits.<sup>8</sup>

Raising the quality of the standard planning base, for which favorable conditions are being created within the combine framework, presents new possibilities for improving the links between economic instruments and the requirements of material plan directives. Given the retention of unified purchase prices, the planning process may be supplemented by a system of accounting prices, which would be the basis for the provision of supplementary forms of coverage of production costs or of payments from profits, and for the determination of the level of management efficiency at relevant levels of production processes.

The possibility of preventing unjustified differences in the creation of enterprise incomes by balancing their production-economic conditions within combines represents a precondition for the more efficient stimulation of the khozraschot interests of production collectives, as well as for a strengthening of their accountability for production performance. The existing economic standing of enterprises, after all, orients them to assure production within a necessary structure, but does not eliminate inequalities in the distribution sphere. Deepening the mutual links of specialized branches establishes, in our opinion, the reality of the expansion of management from the production sphere to the sphere of exchange and distribution. The expansion of the economic relations between agricultural and industrial enterprises appears reasonable within this context. The unification of the interests of specialized production collectives in agriculture and in industry for the quantitative and qualitative satisfaction of needs for final production places in the foreground the requirement of guaranteeing an equal degree of their commitment as the fundamental distribution criterion.

We perceive the path to the improvement of the management of the ZPK production processes in the development of economic relationships according to the above principles. At the same time we have in view the comprehensive requirements of socio-economic development, which include both the merger of two forms of socialist ownership and the shift to a higher phase of integration which unites all stages of production.

FOOTNOTES

1. For more information see, for instance, Gofman, K. G.; Lemesev, M. Ja.; Rejmers, N. F., Socioeconomic Issues of the Utilization of Nature, EKONOMIKA I MATEMATICHESKIJE METODY 5, 1973.
2. Report on the Main Directions of Economic and Social Development of the CSSR between 1976 and 1980. RUDE PRAVO, 14 April 1976.

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3. See "Agrarian Problems in Light of the Resolutions of the 25th CPSU Congress." Economics Institute, Academy of Sciences, USSR, Moscow, 1977.
4. Compare J. Bartunek, S. Szesany, J. Pytel, K. Srubar: "The Formation of the ZPoK, Its Function and Objective in the Development of the Economic Structure of the CSSR." Prague: VUPR, 1976.
5. Compare Rjumel, A. F.: "The Viljand Experiment," EKONOMICHESKAJA GAZETA, No 38, Moscow 1977.
6. "Principles of the Further Development of Concentration and Specialization in Agricultural Production and in Integrational Relations with the Foodstuffs Industry in the Sixth Five-Year Plan," approved by the CPCZ Central Committee Presidium and the CSSR Government Presidium in 1975.
7. For more detail see I. Rubik, "Agroindustrial Combination." Prague: Svoboda, 1978.
8. Compare Rjumel, A. F.: "The Viljand Experiment," EKONOMICHESKAJA GAZETA, No 38, Moscow, 1977.

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EFFECT OF TECHNOLOGY ON AGRICULTURAL PRODUCTION COSTS

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[Article by Engr Jan Burian, CSc, Research Institute of Agricultural and Food Economics, Prague: "On the Influence of Technology on Production Costs of Agricultural Products"]

[Text] The cost of production in the various branches of agricultural production is increasingly affected by the applied form of the technological system and working procedures.

An analysis of the differences among enterprises in the level of actual costs for individual agricultural products shows that under comparable natural conditions and with the same level of per hectare yield or utility value of farm animals the production costs vary markedly, whether in terms of 1 ha [hectare] or 1 day's feed or in terms of a unit of production. The reason for these cost differentials among enterprises is found in the form of technological and working procedures employed.

This thesis may be illustrated by an actual example of the difference in cost of production of sugar beets in the beet growing region with a yield range of 40 to 45 t/ha<sup>-1</sup> (1975 to 1978). The cost for this range came to Kcs 12,460 per ha<sup>-1</sup>. But in agricultural enterprises using the most modern technology for cultivating sugar beets, with a minimal use of manual labor and providing a whole complex of technological operations in preparing the soil and in sowing, cultivating and tending, harvesting and post-harvest operations and employing efficient modern technology and transportation, the actual cost for the same level of yields in terms of 1 ha of sugar beets fell to under Kcs 11,000 per ha<sup>-1</sup>. In comparison, agricultural enterprises in which traditional technological procedures predominate, with a high proportion of manual labor and in which mechanical equipment is inadequate and improperly utilized, the cost level per ha of sugar beets increases to more than Kcs 15,000 per ha<sup>-1</sup>. The situation is similar with other crops and the various branches of animal production.

Improved technology and the associated reduction of costs vary with individual branches. For example, in the production of wheat, rye and barley, technological procedures in the great majority of enterprises are

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for the most part uniform. Nevertheless, even in these branches there are actually considerable cost differences among enterprises. These are due to the technological levels of grain production, especially savings in the use of labor, fuels and oils, and transportation costs affected by efficient utilization of technology in all phases of technological processes. These cost differences in grain production are approximately 10 percent above or below average costs. For example, in the beet-growing region the average cost for a wheat yield of 4.5 to 5 t/ha<sup>-1</sup> in terms of 1 hectare came to Kcs 4,846, although in enterprises with developed technology in grain production the cost approximated Kcs 4,000 per ha<sup>-1</sup>, whereas in enterprises with low technological levels costs even exceeded Kcs 5,300 per ha<sup>-1</sup> (from JZD [Unified Agricultural Cooperative] figures, 1975 to 1978).

In a number of branches there are substantial cost differences among enterprises stemming from differing levels of technological development. This is especially true in the branches producing sugar beets, potatoes, vegetables, wine grapes, fodder plants and small-sized crops. In animal production these differences show up mostly in the cattle-producing branches.

The problem is how to interpret the economically substantial total cost effect of technical development in planning actual expenditures. Technical and organizational levels are closely connected. The application of progressive technological measures is always associated with the organization of production and labor. Thus technological measures do not influence the cost of production in an isolated way, "all by themselves," but always quite objectively they call for appropriate changes and shifts also in the organization of production and labor. Thus it is better, from the viewpoint of evaluating cost effectiveness, to consider these influences as technical-organizational influences, since with this broader concept it is possible to draw conclusions for overall enterprise cost calculations.

This concept also corresponds to the actual state of affairs in which technological-organizational progress is materially projected, and thus also costwise, in all aspects of the production process, although always specifically in individual branches and differently in individual spheres of production.

#### The Influence of Technological Progress on Individual Branches

It is a well known fact that, for example, in the fall heavy soils require 10 to 12--and in isolated cases up to 27--operations to prepare the soil. With modern technology in agriculture the number of labor operations may be reduced by 20 to 30 percent. Cost effects here are direct and show up in items of direct wages and outright internal enterprise costs. This effect at the same time causes a change in the cost structure, too, since other items of calculation are unchanged.

The application of modern technological procedures in the production of sugar beets (with a minimum use of manpower and without manual labor)

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influences a broader range of cost calculations, since it appears in items for seeds, chemical protective agents, the purchase of fertilizers, direct wages, internal enterprise expenditures as well as the depreciation cost of single-purpose machinery.

Improvement in the composition and quality of seed varieties results in increased hectare yields and consequently in changes in the relationship between yield and cost for every item of costing calculations.

In animal production, too, scientific-technical development always works specifically. For example, controlled feeding of cattle shows up, on the one hand, directly in reduced costs of feed (in terms of a unit of weight of the main product) and, on the other hand, in all items of calculation (in the case of higher utility value). In the same way, too, the effect of crossbreeding in cattle and hogs as a factor of increased utility value has the consequence of affecting most of the items of direct and indirect costs.

Efficiency in the use of mechanical and tractor equipment and agricultural transportation in the enterprise is very clearly reflected in connection with all production calculations as items of savings in internal enterprise costs.

Consequently, it is very difficult to indicate all the possible variants of cost effects of labor and technological procedures in individual branches of plant and animal production and to estimate exactly their effects on costs.

Nevertheless, cost calculation must face up to this problem since production and cost effects of technological procedures even now have a very definite impact and their influence keeps increasing.

The methodology of cost calculation must be based on the fact that technological-organizational advances must quite naturally be reflected in greater productivity of labor, that is, in a reduced amount of labor content and labor value added in terms of a unit of production. Technological and organizational advances must, therefore, (under otherwise unchanged conditions) be reflected in relatively reduced production costs.

This, however, presents a serious problem in methodology--how to measure and estimate the degree of the technical-organization level of individual branches in a given enterprise. The best gauge of the the degree of technical-organizational branch progress is indicated by the usage of labor expended directly on a unit of production, that is, the usage of direct labor in hours in terms of a unit of weight of individual agricultural products. Thus we proceed on the assumption that increasing the technical-organizational level is actually particularly reflected in savings of labor value with an overall reduction of total actual costs for a unit of weight of production. This assumption is based on conditions that are otherwise constant, that is, on the assumption of stability of the cost levels of purchased materials and services or on the assumption that development of these levels is consistent with changes in the useful qualities and production

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parameters of these investments. This also assumes a more rapid tempo of growth of productivity of labor compared with the growth of average wages (costs) and stabilization or savings in items of indirect cost.

## Increasing Technical-Organizational Levels--Savings in Labor Costs

Experiences in practice and observations from analysis of actual costs within the framework of a selected group of JZDs (VUEZVz [Research Institute of Agricultural and Food Economics] Prague) almost exclusively show that the implementation of modern technological procedures is organically connected with savings in labor costs and consequently also with relative savings in overall costs. The relationship of the savings in labor value and savings in labor content is, however, considerably differentiated according to branches. Positive, neutral or negative values can produce an alternate effect. That is also why the cost effects of the technical-organizational level of the branches, depending on the usage of direct labor in time units (hours), must necessarily be differentiated according to branches.

Research into this difficult problem complex is not yet complete. It is possible to determine fairly closely the degree of technical-organizational levels in time units of labor value. Planned and actual expenditure of direct labor in time units can be derived from the direct wage calculation entry divided by the average hourly earnings. Although up to now we cannot demonstrably measure the extent of these influences on the level of total unit costs.

Thus for purposes of cost planning this problem is, for the time being, handled by means of coefficients (see Table No 1), based on the results of statistical-economic studies on the relationship between consumption of labor and the cost of individual products within the framework of the selected group of JZDs (VUEZVz Prague, 1975-1978).

Let us take the example of a wheat production branch. The average consumption of labor currently moves within the range of 7 to 8 hours for 1 ton of wheat. It is interesting to note that this interval of time consumption shows up most often in all production regions and in all yield ranges. Thus the level of 7 to 8 h/t<sup>-1</sup> is considered reasonably commensurate with the average technical-organizational level of wheat production in the present period (1980-1981) and the coefficient (Tt) stands for the level of 1.00. In a number of agricultural enterprises, however, the actual expenditure of time for the production of 1 ton of wheat exceeds 8 hours. These enterprises also show higher overall costs for the production of wheat. Insofar as this excess is justified, that is, it reflects less technological equipment or otherwise limited possibilities of applying modern technology, it is necessary to note this fact and the modification in costing calculations. The amount of this toleration should not, however, exceed +5 percent of the total cost for production of wheat, since the technology of wheat production is to a certain extent uniform among enterprises. Consequently, the coefficient expressing the admissible negative cost effect of under-average technological levels is also statistically estimated at a level of 1.05 in relation to average or normative costs calculated for a given yield range and under given natural conditions.

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The technological equipment in a number of agricultural enterprises (approximately 20 percent of the total number) enables them to select such technical-organizational procedures that their measurable expenditure of labor is reduced below the level of 7 h/t<sup>-1</sup>. Certain advanced enterprises report a time expenditure of under 6 hours and some even under 5 h/t<sup>-1</sup> of wheat. These enterprises have demonstrable conditions for reducing overall costs for wheat production, in fact by at least 10 percent compared with the average or normative level of costing calculations. Consequently, the coefficient expressing the cost effects of modern technology is placed at the level of 0.90 (see Table No 2).

The integration of technological progress and production costs is fundamental from the viewpoint of further development of agricultural production, its intensification and its economics. The management and planning system must insist on achieving the economic effects of this integration and reducing unit costs by means of pressure that is technically and economically justified.

[See Table 1 on next page]

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Table 1. Coefficients of Cost Effects Differentiated by Technical-Organizational Level (T2 = 1.00 = average or normative production cost of a given product in a given yield range and under given natural conditions)

Product	Degree of Tech- Org. Level -use of labor (h/t <sup>-1</sup> )			Coefficient (Tt)		
	Underavg. up to	Average from-to	Above avg. over	T1	T2	T3
	Wheat	7	7-8	8	0.90	1.00
Rye	10	10-11	11	0.90	1.00	1.05
Barley	7	7-8	8	0.90	1.00	1.05
Oats	11	11-12	12	0.90	1.00	1.05
Kernel corn	12	12-15	15	0.85	1.00	1.14
Other grains	--	--	--	--	--	--
Peas	14	14-17	17	0.90	1.00	1.03
Beans	12	12-15	15	0.95	1.00	1.02
Rape	10	10-14	14	0.95	1.00	1.02
Poppyseed	130	130-200	200	0.87	1.00	1.12
Sunflower	30	30-40	40	0.85	1.00	1.05
Sugar beets	5	5-7	7	0.85	1.00	1.13
Early potatoes	20	20-30	30	0.95	1.00	1.02
Other potatoes	13	13-18	18	0.88	1.00	1.05
Seed potatoes	18	18-24	24	0.89	1.00	1.02
Canned potatoes	13	13-15	15	0.84	1.00	1.06
Indust. potatoes	7	7-10	10	0.97	1.00	1.02
Flax	40	40-50	50	0.75	1.00	1.02
Tobacco	700	700-1000	1000	0.92	1.00	1.10
Caraway	40	40-60	60	0.97	1.00	1.03
Hops (cwt)	35	35-50	50	0.85	1.00	1.15
Wine grapes	100	100-120	120	0.85	1.00	1.15
Root fodder	8	8-12	12	0.87	1.00	1.13
Corn for fodder	0.8	0.8-1.0	1	0.98	1.00	1.02
Other annual fod.	1	1.0-1.5	1.5	0.97	1.00	1.02
Perennial fodder	0.9	0.9-1.1	1.1	0.92	1.00	1.02
Hay from fields	7	7-10	10	0.85	1.00	1.15
Hay from pastures	2.5	2.5-3.0	3	0.85	1.00	1.15
Milk (100 l.)	5.5	5.5-6.5	6.5	0.87	1.00	1.06
Fattening cattle	120	120-140	140	0.85	1.00	1.05
Calves	150	150-200	200	0.85	1.00	1.05
Yng breeding cattle	190	190-240	240	0.85	1.00	1.05
Sows	280	280-320	320	0.90	1.00	1.05
Other hogs	55	55-65	65	0.95	1.00	1.04
Eggs (per 1,000)	3	3-5	5	0.97	1.00	1.02
Fattened chickens	1.3	1.3-1.7	1.7	0.97	1.00	1.02

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Table 2. Cost Effects of Technical-Organizational Levels on Wheat  
Production Coefficients of Cost Effects (Tt)

Level of Tech-Org. Development	Use of Direct Labor to Produce 1 ton, in hours	Coefficient (Tt)	Costs* for (in Kcs)	
			1 ha	1 ton
Progressive (T <sub>1</sub> )	<7	0.90	4662	873
Average (T <sub>2</sub> )	7-8	1.00	5180	970
Underaverage (T <sub>3</sub> )	>8	1.05	5439	1018

\*--Normative costs for basic production region (beet growing) and standard yield range (4.5-5 t/ha<sup>-1</sup>)

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YUGOSLAVIA

WEST GERMAN COMMENT ON ECONOMIC PROBLEMS

Bonn EUROPA-ARCHIV in German No 15, 10 Aug 80 pp 484-487

[Article by Viktor Meier: "Yugoslavia After Tito"]

[Excerpt] The Unsolved Problems of the Economic System

At present, the concrete political activities and the formation of opinion within the new leadership are focusing on two complexes, namely the economy and the domestic policy, i.e. the attitude toward the real or potential internal pluralism in all fields--national, cultural, intellectual, political-economic and even ideological. These formulas stand for basic problems concerning the future orientation. In this regard, there is a certain pent-up demand as well. Tito--a monument of a policy exclusively oriented toward the exercise of power--had never familiarized himself with economic problems, even though he was so pragmatic as to give others free rein in this field. Similarly, at heart Tito had never accepted Yugoslavia's reality as a multiethnic state. A Communist partisan leader, he thought that the nationality problem--as a reflection of a "bourgeois" society--would be solved automatically through the introduction of socialism. Even though it was not exclusively Tito's fault, it was ultimately due to his annoyance about the fact that this was not the case that nothing came of that attempt at socialist constitutionalism, which culminated in 1970.

In Tito's lifetime, the world largely accepted the nimbus of uniqueness, which Yugoslavia had successfully established after 1948. The country was not primarily judged by its concrete conditions and accomplishments, but on the basis of its political claim, which in turn was almost entirely supported by Tito's personality. Today this is changing rapidly. The new leadership was probably well advised, when it made the economy its primary concern. It certainly was high time, for the 1979 payments balance deficit of over \$6 billion was the maximum of what was tolerable for Yugoslavia. This consideration of economic problems began when Tito was still alive; it was Vladimir Bakarić who urged, even implored, the functionaries to understand that economic problems are political problems as well.

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There is no doubt that remarkable economic results have been produced in Yugoslavia. In the 1960's, the Yugoslav economy geared up to the production of consumer goods; at the same times, there began an energetic extension of the infrastructure. However, in comparison with other countries such as Greece or Spain that had to start at approximately the same level, the Yugoslav accomplishments are clearly inferior, probably on account of the system. Today Greece can afford--although not without some difficulty--to seek full membership in the Common Market, even though its reconstruction after World War II did not begin until after the suppression of the communist rebellion, 5 years after the beginning of reconstruction in Yugoslavia. In Yugoslavia, a similar arrangement--based on reciprocity--with the European communities would result in a catastrophe. In some respects, the agreement concluded in the spring of 1980 between Yugoslavia and the EC can be considered downright charitable. Although the agreement for the most part follows the arrangements made with other Mediterranean states, it does not even insist on implementation--in return for the concessions granted--of those insignificant measures concerning freedom of movement that are taken in other comparable countries. The financial support simultaneously granted by the European Investment Bank in Luxembourg--specifically the credit extended to the Yugoslav electricity sector--even goes to the very limit of the credit margin granted to the bank by its statutes in regard to non-member states. According to statements made in Brussels and in the capitals of the EC countries, the determining factors underlying the agreement were not economic criteria, but the need for political support of Yugoslavia's independence.

For a long time, Yugoslav propagandists had been presenting the alleged discrimination on the part of the EC as the principal cause of Yugoslavia's economic difficulties; toward the end of 1979, however, the press, too, began to adopt the view that the problems were located in Yugoslavia itself. Of late, qualified sources have even been conceding--privately, if not openly--that the shortcomings are to a large extent "system-related." A Yugoslav enterprise entering Western markets under competitive conditions is subject to considerably greater strain than is a comparable Western firm. As a socialist country, Yugoslavia incurs higher costs for so-called "social management," i.e. costs for the state and state-affiliated institutions. To cite just one example: Whereas in the West the state restricts its financial control over the enterprises almost exclusively to fiscally relevant concerns, in Yugoslavia its huge apparatus controls--through the "social accounting"--the enterprises' entire business activities. In justification of this approach, the state claims that the Yugoslav enterprises manage "social funds" that have to be protected in every possible way.

However, the Yugoslav enterprise not only has to pay higher state taxes; under the system of administrative autonomy--which has been propagated with much ideological-political fanfare--it is subject to strong pressure on the part of the employees, who demand full distribution of the profits realized and overall protection of their interests in other respects as well.

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Finally, the enterprises and their managers are confronted with permanent distrust on the part of the Communist functionaries; the managers are regarded as "technocrats" possibly holding "liberalistic" views and the politicians fear their competition. In consequence of this, the Yugoslav enterprises have difficulty in obtaining concessions and sufficient capital resources; in regard to investments, they are dependent much more than are Western firms on expensive bank loans. As a result of all this, the production costs of a Yugoslav enterprise are as a rule much higher than the costs of a Western firm. The price level of the socialist sector in Yugoslavia is excessively high; consequently, the Yugoslav enterprises have been preferring--at least before the devaluation--to sell their output on the more profitable domestic market rather than to try to export their products. Before the devaluation, exports constituted no more than 10 percent of the Yugoslav GNP. But on the other hand, the elevated domestic price level favored the import sector, affecting even the choice of investment projects; without there being a genuine need for it, the enterprises frequently preferred equipment dependent on foreign supplies.

Yugoslav economists have for a long time been saying that these internal obstacles hampering the Yugoslav economy, including--or above all--the system-related ones, could externally be easily neutralized through manipulation of the exchange rate. This view met with opposition, since such an approach would have aggravated the other affliction of the Yugoslav economy, i.e. inflation (in 1979, approximately 24 percent). However, the devaluation has now been effected after all and attempts are being made to check inflation by means of price controls. According to some Yugoslav experts, the development of the Yugoslav economy actually is not nearly as unsatisfactory as could at first glance be assumed: They argue that a growth rate of 4 percent such as is stipulated by the new, revised plan is quite respectable in the European framework. While acknowledging that unemployment--with 800,000 people out of work--is high, they point out that the unemployment rate is stable and that the only truly alarming problem, the shortage of foreign exchange, which has been one of the principal causes of the difficulties in regard to supplies, has now--for the time being--been checked. In anticipation of the results of the devaluation and of the EC Agreement, Yugoslavia has already begun contracting new Western loans.

As to inflation, the Yugoslav economists take an ambivalent position and in this regard they are not alone: Many people, above all the politicians, actually welcome inflation, since it enables the population to make anticipatory purchases and thus helps to check dissatisfaction; in addition, it eases the strain on the enterprises. To be sure, it also stimulates investment on credit and creates a mentality that is conducive to anything but stability. In a socialist country, however, stability is important only in an indirect way, because in such a country the impulses are not generated by private economic agents. But in regard to the general climate,

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the inflation mentality naturally has a devastating effect. Likewise, the devaluation will not solve, but merely cover up, the basic problem of the Yugoslav economy, namely the enterprises' insufficient productivity and competitiveness. Apparently, it is only through permanent devaluation and inflation that a socialist country such as Yugoslavia--even though in comparison with the planned economies of the Soviet-dominated Eastern Bloc its position is quite strong--can to some extent participate in the economic life of the West.

While the differences of opinion in regard to the devaluation have been settled, there is continuing conflict in regard to another problem concerning economic policy, and here the differences are actually turning into ideological touchstones: The question at issue is the position to be taken vis-a-vis the private sector, including private agriculture. The private sector could not only decisively improve the provision of the population with consumer goods, but could also absorb a large number of unemployed. In terms of foreign exchange, a rationally managed agricultural system--based on efficient private enterprises with sufficient land, on cooperative associations and on a realistic price system--could even raise Yugoslavia's agrarian sector from its present deficitary position and turn it into an asset. Repeatedly, certain politicians have requested that a "positive attitude" be adopted vis-a-vis the private agrarian sector. Over the years, certain measures have been taken along these lines, above all in the Western republics and, not least, in regard to tourism, but there has not been any real breakthrough. At present, certain political leaders such as Dragoslav Markovic, but also some progressive functionaries in Croatia, are again calling for stronger support of private tradesmen and farmers. It appears, however, that there is tremendous resistance on the part of dogmatic functionaries, among whose spokesmen are figures such as the secretary of Croatia's Central Committee, Milutin Baltic, who, incidentally, is a Serb. The local functionaries seem to have retained a deep hatred against the private farmers; the functionaries cannot forget that during the collectivization campaign at the end of the 1940's they suffered a decisive defeat and lost face. In Kosovo, the leadership of which frequently turns to the other republics for developmental aid--often in an almost extortionary manner--the private farmers continually have to throw away most of their produce, since the leadership--for reasons of incompetence and dogmatic narrow-mindedness--does not take any steps toward developing a purchasing system for the private agricultural sector.

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