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MODIFIED ECONOMIC-FINANCIAL SYSTEM
AND PRESENT TASKS OF FOREIGN TRADE

The economic-financial system is an element of the management system. Each management system of foreign trade should be theoretically correct, it should correspond to the general concept of the national economy's management, and remain coherent with the economic strategy goals. These criteria are easily attainable in a model analysis while in practice their simultaneous implementation encounters different barriers especially when there appear various tensions.

Planning represents the main element of the management system. The role of economic and financial instruments in decision-making is dependent upon the number of directives included in the plan. In a strictly centralized model, in which any allocation of resources is determined by central preferences transmitted in the form of point directives, the economic-financial system performs passive functions being limited to registering the previously made decisions. On the other hand, in a mixed model, in which decisions are also made at executive levels, the economic-financial system is often the main instrument ensuring coherence between these decisions and guidelines outlined in the central plan. Hence, correctness of particular economic and financial categories in foreign trade such as economic management measures, internal prices, conversion rates, incentives, tariffs, correcting instruments (surcharges, levies, taxes) — should be assessed in relation to the management concept.

Tasks which can be placed before the current management system of foreign trade are strictly limited. Firstly, the system cannot eliminate internal and external disproportions in the economy if they are a result of strategic decisions. High participation of investments in the

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national income, dynamic growth of nominal wages, financing of economic development through foreign indebtedness can be said to create current tensions but their elimination calls for structural undertakings. Secondly, the management system operates in conditions of a definite world market situation which practically cannot be, to any extent, influenced by Poland. If e.g. investment projects commissioned in previous years appear to be ill-adjusted to present demand trends, or if as a result of protectionist policy employed by foreign countries Poland's access to particular markets is restricted or hampered — then these difficulties will not be removed by any system of the current management.

Accordingly, with inelastic structure of production capacities in a short run, being not always complementary in relation to the structure of foreign demand, the main function of the management system is restricted to searching for and launching economic reserves, about existence of which the central level is unaware, in order to secure implementation of the most urgent tasks and facilitate regaining of proper macroproportions in the economy. These reserves encompass assortment, time of concluding transactions, service, financial procedures, special design and colour requirements etc. Benefits in this field can be derived only through active utilization of economic and financial categories.

Despite that, administrative instruments have been employed for several years now as a tool of operative management of foreign trade. Their dominance was not undermined even by introduction in some branches of the so-called modified principles of functioning of large economic organizations, which in their assumptions were implying a concept of indirect management in initiating units employed over the period of 1973—1975¹.

In line with these principles there was reintroduced an incentive relationship between wage fund and dynamics of production added as a main measure of economic management. Simultaneously its definition was precisely expressed and unified. In this way prerequisites for greater decisional independence of the executive level were provided. However, simultaneously there were introduced numerous new instruments the aim of which was to preserve a better central control over formation of the wage fund and to counteract appearance of disproportions unfavourable from the viewpoint of the market equilibrium. These new instruments included tax-free limit of increment of the discretionary wage fund, a system of compulsory wage reserves for incre-

¹ See J. Pajestka, *Zmodyfikowany system WOG (Modified System of Large Economic Organizations)*, „Życie Gospodarcze” April 1977, No. 3.

ments in the wage fund and employment exceeding centrally determined indices. These methods can hardly be called parametric.

The second essential modification in relation to the functioning system of initiating economic units concerns allocation of tasks and resources in the economy. In accordance with the new assumptions, branch ministries are obliged to implement directive guidelines of national socio-economic development plans (sales value, employment, wage fund) through passing them to subordinated large economic organizations in the form of appropriate long-term wage and financial norms steering the production added. In other words, ministries — within the framework of their own plans — should elaborate proper indices several years in advance in such a way that the total value of the production added in subordinated large economic organizations ensures realization of sales value envisaged in the national socio-economic development plan while the level of employment and wages planned for a given year is not exceeded².

The above remarks prove that system changes, which have been expanding the role of branch ministries in foreign trade management for many years, have left at their disposal now a considerable freedom in selection of operational measures. Principally, within the triangle of Ministry of Foreign Trade and Marine Economy — branch ministries — executive economic units the responsibility for trade with abroad is born both by the foreign trade ministry co-ordinating the plan on the national economy scale and branch ministries, to which foreign trade tasks are addressed. Thus executive units are dealing with two disposition and control centres, the interests of which are not always convergent although they formally represent the central level. Such solution may succeed in conditions of the central financial system, while in the active system tendencies towards maximization of effects released by incentive mechanisms account for the fact that a ministry, being assessed on the basis of all effects scored by large economic organizations subordinated to it, becomes interested in obtaining mild tasks and plentiful resources, and thus it is more branch-oriented.

Delegation of responsibility for implementation of a plan to branch ministries and their equipment with powers to execute fulfilment of

² It is believed that one of the most essential problems of the new system is to ensure coherence between instruments of economic manipulation within branch ministries and provisions of the central plan. See: J. Kowalski, *Powiazania NPSG z zasadami zmodyfikowanego systemu WOG* (Links between the National Socio-Economic Development Plan and Principles of Modified System of Large Economic Organizations), „Gospodarka Planowa” 1977, No. 12.

the tasks imposed deprived central functional organs in foreign trade of possibilities to directly control operations of economic units subordinated to particular branch ministries. This consolidates the vertical decisional hierarchy, which can negatively affect co-operation between large economic organizations and especially so in the interbranch system. Simultaneously there appears a threat of large „monopolies” pursuing foreign trade policy in line with their own preferences while bypassing central preferences. It thus appears that centralized management methods might be consistently complemented by strengthening the position of the foreign trade ministry and transforming it into a real and exclusive representative of interests of the whole economy.

Due to technical difficulties in achieving mutual coherence of economic manipulation instruments within branch ministries and provisions of the central plan, the principle of unity of authorities and responsibilities paves the way for application of the simplest and thus traditional methods in exacting implementation of planned tasks despite original intention of the modified system. Similarly, real decentralization of decision-making is hindered by a number of other causes.

First of all, it is hard to carry out an assumption concerning long-term validity of parameters even in the situation of stabilized internal and external economic situation. It is hampered by weak ties between annual plans and five-year plan produced by imperfection of planning methods. In conditions of tensions, continuous corrections of the plan, and elaboration of tasks for three-month and even one-month periods, the postulate of norms stability can be fully included in categories of wishful thinking. Simultaneously lowering of the level transforming the central plan tasks into economic parameters was not combined with introduction of criteria objectivizing this process. Accordingly, it continues to be characterized with many arbitrary features, which on one hand make it subject to bargaining while — on the other hand — they facilitate arbitrary intervention of superior units in the course of the plan implementation. Thus, parametric character of the modified system is largely formal only, which induces individual large economic organizations to exercise considerable caution in search for and declaration of reserves. Central limitation of growth rate of wages, which is justified by market disequilibrium, largely neutralizes the financial system and imposes a need for application of non-material stimuli.

Weakness of the motivational power of ties between the wage fund and production added is most pronounced in export. Linking of foreign trade effects with domestic effects accompanied by large scattering of export-oriented production pushed it, moreover, to the margin of inte-

rests revealed by large economic organizations, as an activity calling for considerable effort without bringing a concrete compensation. Unlike in the domestic market, export is carried out in conditions of the buyer's market and keen competition with other suppliers, which poses a requirement of maintaining a high qualitative level of production, observing delivery time, and responding elastically to buyers' requirements. All these are costly procedures which can be avoided in the domestic market. At the same time, neither rigidity of internal material allocation nor excessively low hard currency conversion rates encourage overcoming of difficulties connected with expansion of export. A relatively low transaction value of export in comparison with production realized in the country account for the fact that a chain of correlations „bigger export — bigger value added — bigger wage fund” is very weak in practice.

Theoretically justified principle of integration between effects of domestic production and foreign trade and of a comprehensive evaluation of executive units on the basis of overall profitability of the whole production does not fulfil expectations in practice. This is also due to specific methods of internal valuation of export and import.

In financial accounting of export there are almost commonly binding transaction prices³, which represent a relatively objective reflection of efforts made by large economic organizations for a part of turnover to be profitable with the present level of conversion rate. On the other hand, in import a whole range of key raw materials and materials from the point of view of economic management costs reach domestic buyers at fixed and stable or, at least, periodically stable prices, which sometimes vary considerably from actual costs of their purchasing abroad. Similarly, the prices of domestic raw material input in export-oriented products fall wide in their relations from obtainable transaction prices. In this way the effect from foreign trade loses its objective character. These deformations are aggravated by all changes in hard currency prices caused by inflation or other phenomena. Benefits derived from the inflationary increase of prices are in the present system reaped in export by large economic organizations, the state budget amortizing this increase in import. The asymmetry in distribution of profits and losses between both levels constitutes one of the reasons accounting for constant import pressure, and it calls for application of directive instruments dimming the effectiveness calculus in

³ Transaction price in export is equivalent to FOB hard currency price multiplied by currently binding currency conversion rate.

production and export. Subsidizing of import in the present situation of growing deficit in the payments balance cannot be reconciled with the strategy tasks.

Awareness of existence of detrimental effects of artificially lowered calculation of imported input is expressed through application of correcting instruments including raw material tax, export or profit tax. These, however, are emergency measures, which while removing certain deficiencies of the pricing system produce numerous new unfavourable side effects, first of all in the field of export development. Thus, in the present situation neither costs of imported input represent any bigger burden for the production added promoting economies nor do increments of the production added, owing to export earnings, represent an incentive to its expansion.

That is why in selected units there were envisaged additional methods of export stimulation in the form of hard currency reserve allocations for supplementary purchases in the hard currency zone or material incentives.

Leaving of hard currency reserves at the disposal of economic units might largely facilitate implementation of export plan tasks due to material shortages in the country, provided hard currency unit prices in export and import are the same and meet requirements posed by plan equilibrium in foreign trade.

In the area of material incentives, in economic units employing labour productivity growth indices in estimating the wage fund, there increases sales value by 8 per cent of export value in selling prices to the second zone encompassed by part B of the foreign trade plan. The magnitude thus obtained provides a basis for correction of the wage fund at the ministry level. Simultaneously there is, however, absent a direct relationship between the premium title and payment fund and there is also missing a clear subject relationship between incomes and achievements scored by individual units.

Conversely, in modified large economic organizations there was introduced a bonus fund for managerial staff created from profit on condition of increased participation of the value of export to the second zone in overall value of sales. The real share increases calculatively according to a special key and is compared with the share recorded in the previous year to estimate a proper fund. This system, in turn, is characterized with an insignificant premium effect and its considerable postponement in time in relation to undertaken export efforts. A complete bypassing of requirements posed by the effectiveness calculus constitutes a common essential drawback of both systems. Boosting of any

export regardless of costs may only postpone payments difficulties but it will certainly aggravate them when applied over a longer time.

The analysis of the modified economic-financial system shows that it consolidates employment of the directive management methods in foreign trade while it simultaneously does not sufficiently promote implementation of the strategy tasks in the field of promotion of profitable export and rationalization of import. On the other hand, statistical data⁴ prove that export performance in the period of 1976—1978 was worse than in other periods (with the exception of the six-year plan), and that despite tremendous efforts made to develop the economy, and despite the fact that the present five-year period was assumed to be a period of dynamic development of export, especially to highly developed capitalist countries. This, among others, testifies to drawbacks in previously applied methods of management in this field making small provisions for specific aspects of activity in the above mentioned markets.

Any improvement of the present system must be subordinated to obligations connected with servicing the present indebtedness in capitalist countries. These improvements can either tend towards further increase of administrative control instruments with regard to volume and structure of trade, or towards gradual employment of duly parametric methods, or finally they can choose a path of gradual introduction of indirect management mechanism freeing the central level from operational decisions only in those areas where appropriate conditions for it are present. This strategy of changes seems to be most advisable in foreign trade and especially in export, where due to the fact that hard currency prices are obtained in heavy competition, the achieved effects may not be of a fully objective character allowing for utilization of strong material incentives. It is also known that contacts with foreign buyers, and mainly those in market economy countries, call for big elasticity of operation, which cannot be guaranteed by the central management system.

In order to implement a strategy of sectional decentralization of decisions it is, first of all, necessary to isolate export profit as a separate basis for awarding premiums. This can be carried out either through substantial activation of the financial system in this field or through nonbalance (calculative) calculus. In both cases it becomes necessary to adjust internal rates and prices to rules of the effectiveness calculus. The calculative variant does not require here reform of financial parameters but only their correction by means of special coefficients for rewarding purposes.

⁴ See: appendix.

The changes which must be most urgently effected include promotion of bigger elasticity of foreign trade rate which should be based on the plan equilibrium level, common introduction of transaction prices in import, elimination of these deficiencies of selling prices, which distort the picture of real export effects⁵. Export profit objectivized in this way should, in its part falling for a large economic organization, provide a basis for application of strong material incentives integrating on a larger scale activities of industry and foreign trade. In present conditions when maximization of direct export is encouraged, a foreign trade company performs but a function of a passive middleman between home industry and foreign markets, being interested only in the level of the hard currency price on which its commission depends while it cannot, to any extent, influence the level of domestic costs. The producer's attention is not in turn, focussed on reduction of cost calculations, the negative effects of which can be felt both in the home market and in deteriorating profitability of export.

Granting of separate premiums for export production in place of a comprehensive evaluation of production profitability is a step backwards in relation to present-day solutions from the theoretical point of view, but from the practical angle it appears necessary as long as profits from export and from domestic sales represent two separate economic categories⁶.

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ZMODYFIKOWANY SYSTEM EKONOMICZNO-FINANSOWY A AKTUALNE ZADANIA HANDLU ZAGRANICZNEGO

W artykule omówiono główne zasady kierowania gospodarką i handlem zagranicznym wprowadzone w 1977 r. w zmodyfikowanym systemie WOG. Dokonano oceny tych zmian z punktu widzenia decentralizacji decyzji. Główny nacisk położono przy tym na analizę zgodności obowiązujących rozwiązań z zadaniami stra-

⁵ Selling prices, being centrally established, are usually characterized with excessive stability; selling prices fixed by directors of industrial amalgamations or companies are usually exorbitant; prices of domestic raw material input are, as a rule, based on costs and they do not take into account the alternative in the form of foreign trade.

⁶ This necessity is not supported by all authors. See e.g. B. Hołubecki, *Modyfikacje systemu WOG* (Modifications of the System of Big Economic Organizations), „Gospodarka Planowa” 1977, No. 9; K. Golinkowski, *Problemy funkcjonowania zmodyfikowanego systemu WOG* (Problems of Functioning of the Modified System of Big Economic Organizations), as above.

tegi w dziedzinie rozwijania opłacalnego eksportu i racjonalizacji importu. Przyczyny braku postępu w przywracaniu równowagi bilansu płatniczego tkwią m. in. w sferze systemu bieżącego kierowania i wymagają powrotu do koncepcji decentralizacji tylko w tych dziedzinach, w których tak jak w eksporcie, zobiektywizowane ceny i wymierne wyniki dają podstawę do stosowania silnych bodźców materialnych.