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EAST EUROPE

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CHANGES IN INCOME DISTRIBUTION IN EASTERN EUROPE

SUMMARY

East Europe is placing greater emphasis on individual consumption and minimizing the social distribution method. This represents a departure of the ultimate Communist method of distribution. Although this new change will have the effect of rationalizing the use of labor, many abuses and other effects may occur.

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Policy changes affecting income distribution in several East European countries have created some of the most provocative modifications associated with the new economic reforms.

The new shift in income distribution toward individual consumption and away from social consumption represents a reversal of a long-cherished ideological principle and is but one of several significant alterations in income policy. In the past Communist ideologists have pointed with pride to the large share of consumption goods and services distributed on a social basis and have said that this method of income apportionment would increasingly be followed. When the final stage of Communism would be reached, all goods and services would be distributed on a social rather than an individual basis, i.e. without any direct individual expenditures.

In his maiden speech as Premier to the Hungarian Parliament on November 13,(1) Gyula Kallai clearly expounded the reason for the new income distribution policy when he said:

"It is worth noting and ought to give some food for thought that when considering their standard of living many people pay no attention to the allotments they receive in addition to their wages."

Then Kallai pronounced the new policy by adding that

"In the next phase the standard of living should be improved principally by means of wages paid to the population."

In his report to the recent Hungarian Party Central Committee on the new economic reform in Hungary, Central Committee Secretary Kossó Nyers also stressed that this principle was to be embodied in the new system.(2)

The Czechoslovak President and First Party Secretary, Antonín Novotný has also made similar expressions.(3) While speaking at a reception for the leading workers of the Czechoslovak uranium industry he talked about various commentators who "speak and write about the development of services but do not ask the question of who is to pay for it." Then he added, "They obviously think that the state should pay everything. But this does not work...."

Both Poland and Yugoslavia have taken the initial steps to reduce the social consumption aspect in housing.

(1) Magyarhíradó, 14 November 1965.

(2) Magyarhíradó, 21 November 1965.

(3) Radio Bratislava, 19 November 1965.

Social Consumption Subsidies Reduced

Subsidization of housing, basic consumer goods, public utility services, factory cafeterias, cultural and sports activities, and of other social programs has in the past been the chief method employed to increase the social basis of distribution. Through subsidization these goods and services are, so to speak, given partially "free" to the consumer.

Three aspects of the new distribution policy can be detected which affect the social and individual consumption shares or the manner in which social distributions are made: 1) workers are now or will be required to pay directly for a larger proportion of the cost of the goods and services being distributed on a social basis; 2) social consumption based on a general distribution system for the economy as a whole is being reduced and social distribution on the enterprise basis is being expanded; and 3) a shift from central allocations to those determined on a regional or local basis.

The first two have the effect of making social consumption not only a cost to the society as a whole but also a direct cost to the enterprise and/or the individual. In the third case there is an attempt to bring the cost of social consumption closer to the ultimate consumer. Also, as the regional and local authorities collect a large proportion of the costs directly from the ultimate consumer, the costs of social consumption will be reflected to a greater extent as a direct cost for the individual and, in turn, for the enterprise.

Housing -- An Example

All regimes have granted substantial subsidies for housing. Rents in Eastern Europe have, therefore, generally been very low. However, Poland and Yugoslavia have recently decided to take the first steps toward establishing economic rents, i.e. rentals which cover the depreciation of the dwelling, repairs, and the administrative costs of housing. A second program in housing which is also being pushed is the expansion of cooperative and individual ownership of dwellings. With cooperative

or individual ownership, the occupant will be required to pay a larger share of the total cost of housing.

The new Polish "economic" rental system introduced on October 1, provides subsidies equivalent to the differences between former rental payments and the "economic" rental fee. These are granted to the individual by way of the enterprise for which he works. Where previously subsidies were paid to the housing authority, now they are paid directly to the enterprise. It is expected that the amount of the housing subsidy paid by the government will be reduced gradually whenever the worker's increase in wages will be affected.

In Yugoslavia the subsidies making up the difference between the old rental and the "economic" rent is paid directly to the housing authority rather than to the employing enterprise. However, as is the case in Poland, it is planned to reduce governmental housing subsidies in an inverse ratio to the increase in the workers' income. This process is also to take several years. After a period of several years the worker will be paying the full amount of the calculated economic rent.

Effects of "Economic Rents"

As more of the rental payments are incorporated as part of direct wage payments, the direct cost of labor for the enterprise will increase even though the cost to society as a whole will remain unchanged. Industries using large quantities of labor will be affected more than others. In any case, increasing direct labor costs should stimulate the enterprises to seek labor-saving investments and more effective methods of labor management. Improved rationalization in the use of labor should occur. Costs should be brought more closely into line with actual expenditures of labor.

Stimulating workers to join housing cooperatives or to build their own homes will have the additional result of removing some of the potential inflationary effects represented by ever-growing savings and the actual inflationary effects of a

policy of large-scale housing subsidies. By requiring large down payments for cooperative or individually-owned dwellings, the savings of the occupant will be immobilized and removed as a potential inflationary threat. By ultimately removing subsidies, the worker will be required to spend more of his direct income on housing, thereby leaving potentially less for other purposes.

Regardless of the nature of the product or service distributed as part of social consumption, requiring workers to pay directly for a larger proportion of the costs should have the same effect as the new rental program in Poland and Yugoslavia.

Other Effects and Possible Abuses

The incorporation of a larger proportion of housing costs as part of direct wage payments will give the worker the illusion of a higher real income. Although he will have approximately the same housing as before, the worker will receive more take-home-pay. However, the amount of income left after paying for his housing will remain the same.

It is also possible under the new program to shift a part of the housing expenditures into that portion of the enterprise wage fund used for material incentives. To the extent that this is done, bonuses and premiums will constitute a large proportion of total wages and thereby could be used as a bigger lever for stimulating labor productivity. Under these circumstances the wage premiums would become a part of the income illusion.

In Poland, where the subsidies are being furnished through the enterprise, one sees effects which are not operating under the Yugoslav transitional rental system. Since the Polish rental subventions are directly related to the place of employment, this method of subsidy payment tends to reduce labor mobility. This is true particularly when the next job is not immediately available. The Polish arrangement also complicates the worker's calculations of the relative merits

of alternative employment possibilities. These effects will tend to undercut the desirable objectives of the material incentive program being introduced under the new economic reforms.

A more serious effect -- in fact an abuse -- which is possible under the Polish system pertains to the denial of subsidies as a means of disciplining workers. This practice has already been reported by Polish radio.⁽⁴⁾

Government Budget Effects

A number of illusory and actual effects on the fiscal operations of the government are predictable. As the various subsidies become a part of wages or expenditure by the enterprises, to that extent the size of the central governmental budget is reduced. Thus where taxes were previously collected on a general basis and then redistributed out of the budget, under the new system the governmental expenditures and the receipts needed to cover the subventions will no longer appear in the financial transactions of the state. This will appear as a reduction in both the taxes and the expenditures and give the appearance of a decline in the tax burden of government. In the end, however, the worker will continue to pay for the housing, although this time on a direct basis. The real social cost will remain the same.

On the other hand, the effects of the increase in direct wages will become more apparent in the budget items concerning all the goods and services bought by the state, e.g. total military expenditures.

Local and regional budgets will also grow while the national budget declines. This is the result of shifting the financing of a large part of social consumption to lower levels. The regime hopes that by requiring local and regional governments to find their own sources of revenue, this will reduce the level of social consumption. The central authorities hope that by

(4) Radio Warsaw, 17 August 1963.

shifting the financial burden to a lower level, the people will be less demanding for the goods and services which previously seemed to be "free." They were "free" only in the sense that there was no direct connection between receiving and paying for the commodities or services. Under the old system, one paid taxes whether one received anything or not. Under such circumstances would it be prudent for any recipient to ask for as much as the central authorities can be persuaded to give.

As the shifts in distribution occur, particularly from social to individual consumption, Eastern Europe will be deemphasizing the basis for allocating consumer goods and services which was to be attained under the final economic state: Communism.

Harry Trend