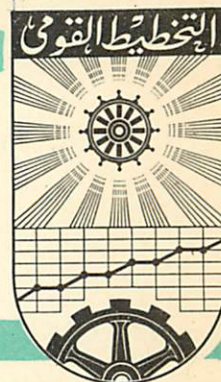


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Role and Function of Socialist Credit
in Industry.

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Credit in Industry.

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O. Introduction

In November 1964 a memorandum was published by Prof. Z. Fedorowicz (Memo. 512) dealing with planning of credit in the socialist economy.

In our opinion, it is necessary to give some additional explanations regarding the problem of socialist credit so as to make some questions, touched in the mentioned memorandum, more understandable .

So, for instance, you can read in the memorandum of Prof. Fedorowicz that, quoted directly,

"....; the estimation of the monetary resources serving to cover the credit expansion must be based on the estimation of the increase of monetary savings and reserves made by the same economic units."

(Memo. No. 512, P. 1)

This should not be understood in such a way that the volume of credits, in socialist conditions, is limited by the monetary savings or the reserves made by economic units or with the population. Under socialist conditions of production, where the whole reproduction process is a planned one, the passive side of the credit balance sheet (the liabilities or the resources) does not determine the "marginal point" of credits.

This so, because under socialist conditions credits are given, on principle, only for commodity production and commodity circulation. That means, the marginal point of credits cannot be determined by financial means but only by material possibilities. In other words, if there are certain material possibilities (raw material resources or other resources, for instance) so as to increase production, on the other hand however, there is a shortage of money, that means, all monetary resources are exhausted, the increase of production can take place in spite of this fact. On the strength of increasing production the state bank is entitled to create additionally new money by means of credit. Or, in other words again, materially conditioned money needs, that means, money needs conditioned by an additional production of material goods, shape their own resources. The necessary equilibrium between money and goods can be made discernible or visible by the credit plan, and

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therefore, this plan is the most important plan so as to ensure the stability of socialist money.

But for making all these things understandable, we have to look at some main principles of socialist credit policy. These principles shall be shown by the memorandum now submitted.

1. Role and Function of Credit in Industry

1.1. Credit as an objective category

Credit is, in our opinion, an objective category. What does that imply?— It means that, on the conditions of an advanced commodity production, credit necessarily arises out of the nature of the reproduction process. This leads with the rotation, turnover and accumulation of funds to the formation of free, temporarily unused monetary means on the one hand, whilst needs for credits are arising on the other hand.

This holds true, on principle, regardless of the concrete mode of production, i.e., it applies to capitalism and socialism alike.

Besides that, socialist conditions of production give rise to additional credit relations caused by considerations of economic policy making and aiming at a better utilization of the credit category in the interests of the national economic development. An examination into the bases of credit leads to the conclusion that the temporary setting free of or need for money is caused by the following factors:

1. Non-coincidence of the time of production with the time of circulation;
2. Transfer of the value of the means of production to the products and accumulation of depreciation charges;
3. Accumulation;
4. Formation of payments reserves in the state budget, in enterprises and with the population;
5. Maintenance of financial reserves for the State;
6. Irregularities and hold-ups in the reproduction process.

So there are various factors inherent in the reproduction process which entail the temporary setting free of money on the one hand and the rise of temporary need for money resources on the other. The liberation of money leads to the formation of credit resources.

By means of credit these sources are mobilised and re-distributed for the purpose of meeting temporary needs for money.

These conditions are objective ones and therefore existing in capitalist and socialist economy likewise.

The objective effect of the economic laws requires that the temporarily liberated monetary resources be again channelled into the reproduction process for productive purposes. Under capitalist conditions of production the application of capital for the sake of surplus value and the employers' striving for profit call for this re-entering of temporarily unused monetary resources into the reproduction process. Under socialist conditions of production it is the basic economic law of socialism, i.e., the maximum increase of commodity production for the sake of satisfying the needs of the people, that requires all means and resources to be mobilized for developing the national economy and to be utilized, in accordance with the requirements of the law of planned proportional development of the national economy, in such a way as to ensure the continuity of the reproduction process.

Moreover, the mobilization of credit sources, their re-distribution in the forms of credit and their re-entry into the reproduction process are used to achieve objectives of the government's economic policy.

So the character of socialist credit is shaped by the socialist relations of production. What does that mean?

- a) Owing to the requirements of socialist production relations credit, as a category of the law of value, has attained a socialist content. We have to take account of the operation and effects of the law of value in the sphere of credit, although the law of value does not become the determinating, regulating factor of our economy. It is rather used to implement the law of planned proportional development in our economy. It is this very aim that credit, as a category of the law of value, has to serve, too.
- b) Under socialist conditions of production the temporary setting free of money as well as the rise of temporary demand for money, on the basis

of the planned production process, are planned phenomena. It follows that both the mobilization of temporarily spare monetary resources and their re-application in the reproduction process can and have to be planned. It follows, furthermore, that this temporary liberation of and need for money is simultaneously connected with the formation, distribution, and utilization of material funds.

- c) In consequence of the socialist relations of production and resulting from the necessity to plan and to manage the national economy through the socialist state, the planning of temporarily liberated money funds and their re-application in the reproduction process are also carried through by competent organs of the socialist state. Accordingly, under socialist relations of production credit assumes the character of nationally centralised and used monetary funds, i.e., the character of finance of the socialist state.

Speaking about the objective bases of credit I have already mentioned that in the process of the rotation and turnover of funds there is a continuous setting free of monetary resources, whereas, in another place, supplementary needs for financial means arise. The functions of credit, derivable from these facts, may be defined as follows:

1. In the first place, credit has the function of forming, in a planned way, monetary funds of society as well as redistributing and utilizing them on conditions of their being repaid.
2. In the second place, credit has the function of accounting for and controlling the planned development of the national economy.

The formation of social monetary funds by means of credit proceeds in a twofold way: on the one hand through the issue of money and, on the other hand, in the course of the redistribution of the national income. In other words, through the issue of money that social monetary fund is created which comprises the whole of deposit-money and cash in circulation. The volume of this monetary fund is identical with the volume of credit, since money is circulating only in the form of credit. The size of the credit volume and, thus, the size of the volume of money is essentially determined by three factors:

1. Primarily the volume of credit is determined by production, circulation, and the distribution of the national income;
2. Secondly, the credit volume is influenced by politico-economic measures of the government, if, for instance, nationally-owned enterprises **receive** loans, in order to be able to bridge certain liquidity difficulties, the credit volume is growing without production or circulation being increased;
3. Finally, the credit volume is affected by the techniques of banking operations, if, for example, banks grant loans which are credited to the current accounts of the borrowers long before they are actually used, then the credit volume will, of course, be larger than at the moment the borrower draws upon it for payments.

Credit does not only form money funds, but redistributes ~~them~~ also in a planned way. Once put into circulation, the money begins to circulate, passing from one hand into another and changing from the form of cash into money in account, and vice versa. We have already pointed out that in this process of money circulation certain monetary resources are continuously being set free, whereas, on the other hand, credit requirements are arising which have to be set by the banks via the means of credit.

These functions of credit, mentioned above, have to solve the following problems:

1. Promotion of planned production and circulation. With the help of credit the accomplishment of the most decisive national economic tasks has to be ensured. Due attention should be paid
 - to the fulfilment of the tasks covered by the nomenclature of the state plan, and
 - to production being in accordance with stipulated assortment, quality, and contractual agreements.
2. Securing of the continuity of the reproduction process.
3. Regulation of partial proportions in the national economy.

4. Stengthening of the regime of strict economizing and of the principle of economic accountancy (self-support) of enterprises..
5. Strengthening of the socialist co-operative sector and semi-state form of ownership.
6. Inclusion of the private sector in the uniform reproduction process.
7. And last, credit serves to consolidate and stengthen the currency.

Let us now approach some particular questions connected with this range of problems.

1.1 Socialist principles for granting credits

In order to enable credit to fulfil the tasks that I just have outlined, under socialist conditions of production it was necessary to eliminate all those kinds of credit which made an effective economic control by credit impossible. This referred, in the first place, to commercial credit which capitalist enterprises allow each other and which makes credit relations intricate and difficult to survey, thus preventing a central utilization of credit for the control of economic processes financed by means of credit.

The limitation of credit to direct bankers' credit is one of the basic prerequisites for an effective system of control through credit. The possibility to control the process of reproduction through credit is one of the special qualities of credit in socialist economy. In the interests of the planned mobilization and use of loans, the credit reform of 1949 laid down the fundamental principles ruling the use of and control by credit.

These fundamental principles may be defined as follows:

1. Loans are exclusively granted for the purposes of commodity production and commodity circulation.
2. The time of repayment is fixed in conformity with the planned processes of the turnover of enterprise funds.
3. The loans granted by the bank have to be covered by the objects of crediting themselves; i.e., by the objects which were financed by loan funds.

The first principle—that of earmarking loans for specially fixed purposes—means that the unused monetary resources accumulated by the bank may be applied only for the planned production of goods and for accelerating the turnover.

Credit finances the planned keeping of stocks as well as the planned expenditures of production and circulation. Thus the enterprises are forced to use their financial resources only for purposes fixed by the plan. Of course, enterprises may overfulfil their plan targets, if this is desirable from the national economic point of view. In such a case there are allocated additional credits over and above the original plan figures; but if an enterprise does not produce in compliance with its plan or does not fulfil its circulation function the bank will apply sanctions or take other coercive measures, in order to prevent the rise of serious disproportions in the national economy.

In other words, the first principle is intended to guarantee that credit is used in the national economy with a high economic effectiveness, and that the economic operations financed by credit answer the purposes that the plan envisages.

The second principle - that of limiting the repayment of loans in time - arises necessarily out of the objective foundations of credit. On the one hand, monetary funds are set free only temporarily, on the other hand credit is to cover only temporary need of money in enterprises. Since, on the conditions of socialist economy, these processes are proceeding in a planned way, it is possible to tie crediting to the corresponding planned phases of the reproduction process, i.e., the time for the repayment of credits must be fixed in such a way that it coincides with the end of the corresponding phase of the reproduction process which had been financed by that credit. A credit for the financing of raw materials, for example, is granted only up to the time these raw material have entered the reproduction process and turned over in the planned way. This means, that the importance of the principle of temporal limitation of credits, in connection with the principle of earmarking credits for planned purposes, consists in

its influence and check on the planned course of the reproduction process and on the planned turnover of funds in particular.

The third principle says that

the credited raw materials,
finished products or
monetary demands

must be demonstrable by enterprises at any time.

This principle is of great significance for two reasons, namely

1. It safeguards the material covering of the credit and
2. It has an important controlling function.

Summarizing these problems we have to state that the application of the three crediting principles mentioned above, forms the basis for credit control on the one hand and for the planning of credit, especially in its connection with the planned material reproduction processes, on the other hand.

1.2. The Planning of Credit

The planning of credit is the most essential method for the application of both the law of value and the other economic laws of socialism in the sphere of credit. The planning of credit, as part of the aggregate national economic planning of finance, is dependent on the material plans to which is given a position of primacy within the system of national economic planning. This means that the credit plan derives its aims:

1. from the national economic plan
2. the state budget and
3. the regional and enterprise plans.

This starting-point of credit planning, the planning of credit itself, and the application of the socialist crediting principles in planning permit the planned formation, distribution, and utilization of credit funds to be

fully harmonized with the planned formation, utilization, and distribution of the material funds of the enterprises and with the necessary national economic proportions.

Thus, credit promotes the planned guidance of the national economy.

Structure of the Credit Plan

<u>Assets</u> (use of sources):	<u>Liabilities</u> (resources):
Credit for stocks (seasonal, in excess of the norm) and outlays	Assets of the State bank
Accounting credits (against documents en route, claims in foreign countries, for payments)	Turnover and current accounts of enterprises and cooperatives.
Other credits (for wages, for temporary replenishment of own working assets)	Other entrusted means
Overdue credits	Savings bank deposits
Bank reserve credit for operational credits	Assets of the State Budget
Investment credits to national enterprises	Balance of payments with foreign countries
Investment credits to cooperatives	Currency in hands of population
Bank reserve for investment credits	Other liabilities.
Credits to population	
Other assets.	

The following national economic proportions are taken into particular consideration in the credit plan:

1. The ratio between material and financial processes, especially, the ratio between the material development of stocks, on the one hand, and the development of temporarily spare monetary means and crediting, on the other hand;

2. the ratio between commodity production, commodity circulation and money circulation,
3. the ratio between the formation and distribution of the national income according to the single walks of life, on the ~~p~~ne hand, and the development of the credit volume and money circulation, on the other.

It follows from all these explanations that the credit plan is a synthetic plan closely connected with a great number of different partial plans of the system of aggregate national economic planning. This close connection will be easily discernible to you if you have a look at the following sketch which illustrates the role of the credit plan within the system of national economic planning.¹⁾

2. The Banking System of the GDR connected with industry:

The banks of our republic are part of the uniform socialist system of finance. They are objectively necessary institutions mobilizing and accumulating the temporarily idle money resources of the economy and the population in order to utilize them, on the basis of the state plans, and in the form of bank loans for developing socialist economy as quickly as possible. So the banks have a share in the re-distribution of certain sections of the national income and the national wealth. As state organs the banks exercise managing and controlling functions as far as the financial relations, mediated by them, are concerned.

Their controlling function, therefore, is part of the control of economy through socialist money.

The banking system of the GDR includes:

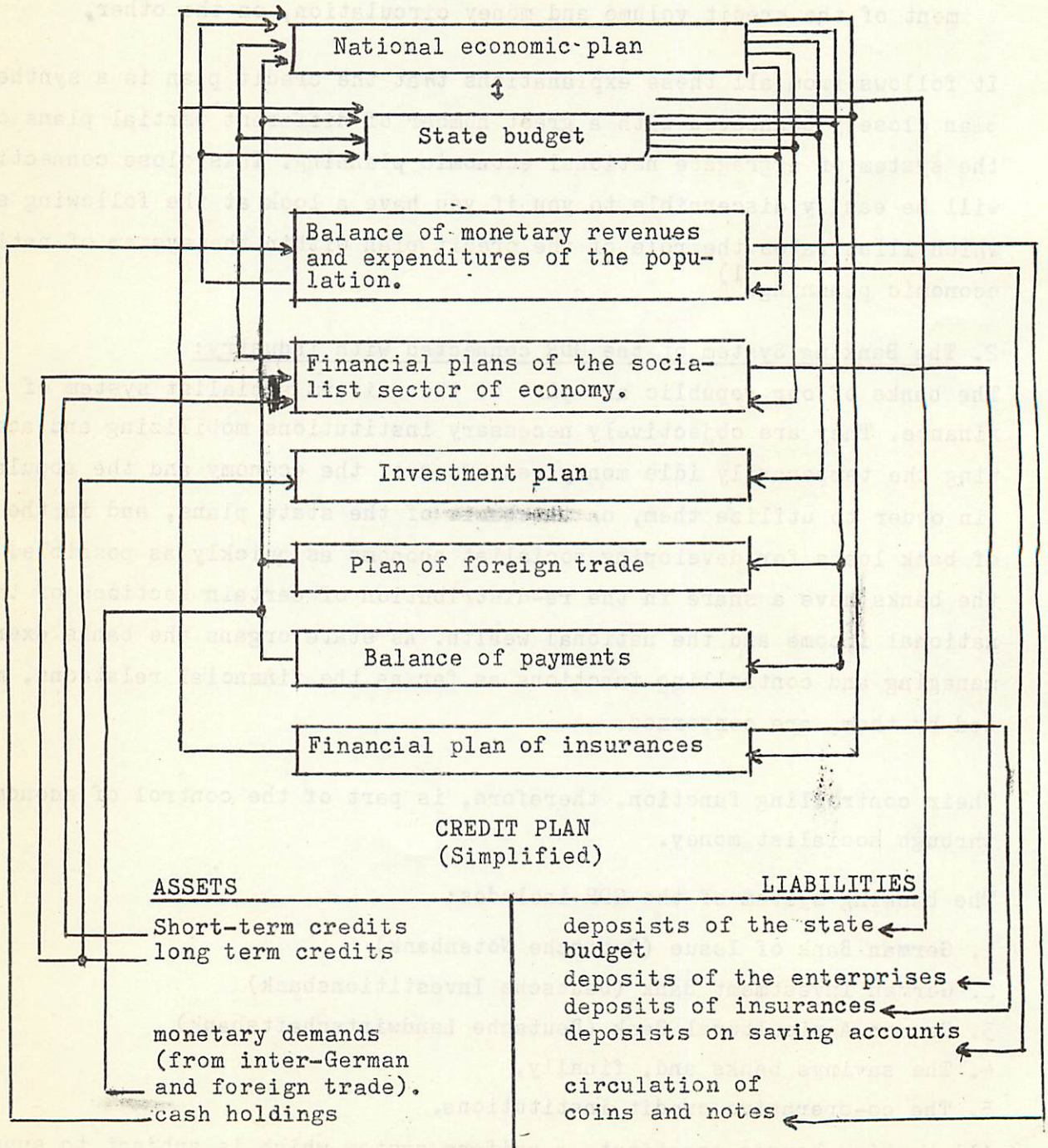
1. German Bank of Issue (Deutsche Notenbank)
2. German Investment Bank (Deutsche Investitionsbank)
3. German Agricultural Bank (Deutsche Landwirtschaftsbank)
4. The savings banks and, finally,
5. The co-operative credit institutions.

All banking houses constitute a uniform system which is subject to supervision and direction by the state.

¹⁾ Sketch, c.f. page 10

SKETCH

The position of the credit plan within the
system of aggregate national economic planning



The banks have the following tasks:

1. To mobilize and accumulate the temporarily spare, inactive resources of economy and population and to apply them, on basis of state plans, as credits in the national economy.
2. To exercise, through the mobilisation and accumulation of idle resources and through the crediting of the economy, a strict control over the planned reproduction processes.
3. Being closely connected with the socialist reproduction process the banks are able to exert a great influence upon the economic accountancy (i.e. the economic self-support) of the socialist enterprises. In case of violations of plans the banks enforce the observance of the plan by means of sanctions.
4. The banks have carefully to analyse all economic processes which are connected with their banking operations. In advising enterprises and bringing influence to bear on them the banks have to consider the results of such analyses.
5. The banks are obliged to mobilize the workers of the enterprises for an active participation in the solution of the tasks the banks are faced with, and to educate the leading economic staff of enterprises in the sense of an effective management.

2.1 The German Bank of Issue (Deutsche Notenbank)

Within the credit system of the GDR the German Bank of Issue holds a special position. Being the central financial organ of the Council of Ministers and the State Bank of the GDR it implements, on the basis of decrees and resolutions of the government, the monetary and credit policy arising from the economico-political aims of our Republic.

Its main tasks can be briefly characterized as follows:

1. The issue of currency as well as the operative planning and regulation of currency circulation.

2. The mobilization of all temporarily liberated, i.e., idle monetary resources, and the organisation of clearing operations.
3. The allocation of credit to the nationally-owned industry, trade, and transport enterprises, socialist co-operatives, semi-state enterprises based on state partnership, and to privately-owned industrial firms.
4. It administers the cash side of the execution of the state budget.
5. It is entrusted with the execution of all payments and clearing transactions with foreign countries.

The tasks and operations of the German Bank of Issue are based on the state plans, above all, the national economic plan, the state budget, the plan of credits and the plan of foreign currencies.

In connection with the increased role of credit, the new economic system of planning and managing the national economy will, doubtlessly, add even more weight to the position of the state bank.

In connection with the development of our Associations of Nationally-owned Enterprises into economic leadership organs, for example, special industry branches of the German Bank of Issue were established, which have to take lead in shouldering the responsibility so as to finance and control their respective branches. These industrial branches of the state bank are responsible for the following operations and problems:

1. for keeping the accounts of the Associations of Nationally-owned Enterprises.
2. for confirming the quarterly cash plans of the Associations of Nationally-owned enterprises and controlling their observance;
3. for establishing direct credit relations to the Associations;
4. for confirming the quarterly credit plans of the Associations and controlling their fulfilment;
5. for working out its own comment on the financial plan of the Association to be drafted yearly.

6. for the participation in plan discussions and sessions in which the managers of important large-scale enterprises have to give account to the Director General of the Association but also in those cases when the Director General of the Association has to give account directly to the respective head of department of the National Economic Council.

The industrial branches of the German Bank of Issue may, so to speak, be called the "own banks" of socialist large-scale concerns. Through the instrument of credit they have to see to it that in the economic sphere they are responsible regarding the process of reproduction and, especially, regarding its taking place without any disturbances and in full accordance with the targets of the national economic plan.

May I be permitted to explain, especially, the last fact.

In the framework of the so-called New Economic System, now applied in our economy and marked by a tendency towards the so-called market-system,¹⁾ financial categories as price, cost, profit and credit shall become more effective. Thus, the role of our state bank will become more important.

In former times, for instance, the essential or substantial investment had been financed by our state budget. Thus, the enterprises could not be forced from the economic point of view to plan only such investment based on and proved by economic considerations and calculations; that means, based on economic costing, on the one hand, and able to become effective, with regard to production and profit, within a rather short time, on the other.

Now-a-days the means of investment must be achieved by the work of the concerning enterprises themselves. That doesn't mean, of course, that now each manager is allowed to invest at will or at his discretion. The same as ever, it is determined by the national economic plan, in what speed and in what proportions the aggregate national economy shall be developed.

The managers of the enterprises, however, are expected to take lead in

¹⁾ c.f. Memo. No. 505, The System of Planning in a socialist Economic, by Prof. Fedorowicz, Page No. 5 f.

shouldering the responsibility so as to achieve the needed material and financial means, necessary for expanding the production, by the enterprise itself. If there is a shortage of own means, the managers will be allowed to ask for credits. Since there must be paid interest on the credit, the future profit can be diminished and, even, will be diminished. Accordingly, each Director General of the Associations of Nationally-owned Enterprises and each manager, as well, will be highly interested not only in achieving the planned means of investment in their own spheres, but also in using these means at the highest economic effectiveness possible.

In this respect, the role of the established industrial branches of our state bank will become more and more important. As own banks of the Associations they have to observe by financial means the financial work of the Association and the single enterprises as well. Therefore, these banks are going to become so-called economic banks, that means, banks closely connected with the economic life of the concerning Associations and enterprises, connected with them on a hitherto unknown large scale.

What does that mean in particular? Hitherto the activity of the bank was directed to the control of passed planning periods and to the deficiencies coming into existence connected with them.

When developing to an economic bank, however, the activity of the bank must be proceeding from the requirements of the national economy, and the monetary funds, concentrated by the state bank, must be utilized according to the aims of the national economic planning in such a way that the highest possible economic efficiency will be achieved. This fact requires a mode of labour directed towards the perspective. The ability of prognostic calculations becomes, under the conditions of the scientific and technological revolution, an indispensable necessity also for the members of the bank.

Let us now pass over to a further beam of our banking system connected with industry.

22. The German Investment Bank

This bank is the specific organ of financial control in the field of construction industry and, in part, in the field of capital construction or investment.

Its main functions are:

1. Financing and control of the construction of new enterprises.
2. Financing and control of the construction of complete, ready-for-operation objects and installations of industry, agriculture and house-building.
3. Financing and control of the association and enterprises of the construction material industry.
4. Financing and control of projecting enterprises.

This range of functions shows that both the financing and the control of the entire reproduction process of the capital construction industry is concentrated with the German Investment Bank.

Regarding the tasks of this Bank some alterations will be happening resulting from the switching of the Associations of Nationally-owned Enterprises and of the projecting enterprises to economic accountancy; that means, resulting from the strengthening of market principles within the framework of the new economic system, now applied in our national economy, and entailing from the fuller utilization of market categories the controlling function of the German Investment Bank will deserve specially high priority as against the financing function (from the point of view of redistributing budgetary-funds).

For the future the associations as well as the enterprises themselves have to take the lead in shouldering the responsibility regarding the establishment or enlargement of enterprises. What finance is needed for doing so should so far as possible be provided by mobilizing interior sources of the associations and enterprises concerned.

Accordingly, it is essential to make fuller utilization of market principles on an ever growing scale-also regarding the construction enterprises and the projecting enterprises as well. In other words, these enterprises, mentioned at last, and executing the investment must be made interested materially in attaining scientific and technological top-level.

In the past these enterprises were financed by the state budget (by means of the Investment Bank, of course). Independent on the social benefit of their performances the prime cost of these projecting enterprises had been replaced by the budget. Long projecting-times, for instance, or insufficient quality of the ready-made projects did not effect negatively the financial situation of those enterprises.

Since the beginning of the current year the projecting enterprises have been switched to economic accountancy, that means, to economic self-support. They are no longer financed by the state budget, but now they have to live up to their own performances. The sale of worked out projects does not happen any longer according to the individual expenditure of the certain projecting bureau, but based on the socially-necessary expenditures. Above all, the prices shall be fixed considering the quality of the delivered projects. If the bureau succeeds in surpassing the given technico-economic indicators, it will be entitled to demand higher prices. If, however, the indicators set and bound to be reached therefore, could not be reached by the projecting bureau, the customer is entitled, on the other hand, to reduce the price by a certain percentage.

By the possibility of profitable supplements the projecting enterprises will self-evidently be induced to look steadily for economically more favourable possibilities to execute investment projects.

Thus, we can state that in the framework of the newly applied economic system, marked by a trend towards the so-called market system, the functions of the Investment bank are going to be changed and that the Investment Bank now is expected to control the investment activities more than in former times by crediting operations. Some good experiences are already in hand.

The regulation will be as follows:

for each investment project a so-called main supplier will be determined. This main supplier has to take care of all the activities connected with establishing the plant. For financing all the necessary expenditures the main supplier will be credited by the Investment Bank. This granted credit must be repaid in accordance with the time at which the projects should be finished.

If there are, now, some troubles, for instance, the termination has not happened in time, that means, punctually; or the delivered quality is insufficient etc., the main supplier will not be able to repay the credits. The Investment Bank, on the other hand, will be going then to take coercive measures in changing the rate of interest; may be, up to 8% per annum as compared with 1.8% in the normal case. That can't be the same to the main supplier, for this higher interest would have to be paid out of the planned profit.

This new regulation, we think, will make the construction enterprises as well as the projecting enterprises work more economically, more reliably, and more effectively. Furthermore, this new regulation is believed to promote, as one instrument of course, the scientific and technological revolution within the shortest time possible.

3. Final remarks

Summarizing we can state that credit represents an objective category resulting from some special conditions given in all those commodity productions which are marked by commodity-money-relations.

In particular, credit is a so-called value category objectively connected with interest. Conditioned by these facts-and under socialist conditions of production-credit serves:

- i - to form monetary funds and
- ii - to control the social reproduction process by redistributing the formed monetary funds in accordance with

the economic tasks given by the single economic plans.

For realizing these possibilities being inherent in credit some very important principles must be taken into consideration. Particularly the following:

- i -credit is to be planned closely connected with physical planning; in this connection priority must be given to physical planning; monetary relations are nothing but reflections of physical processes, that means, they are derivable from physical relations;
- ii -therefore, credits must be granted in accordance with planned tasks of commodity production and commodity circulation;
- iii-the time of repayment must be fixed in accordance with the planned processes (of production), that means, in accordance with their temporal running off;
- iiii-and, finally, credits must be covered by objects bought by means of credit; for example, if there is granted a credit so as to buy raw-materials, these bought raw-materials, at the same time, have to cover the granted credit.

Another problem which should be touched in our concluding remarks is the problem of interest.

In capitalism the rate of interest is used so as to regulate the equilibrium between supply and demand. If there is a high demand for money the rate of interest will be at a high level, too. If the supply of money, on the other hand, is higher than the demand for, the rate of interest will be at a lower level. Proceeding from this fact and based on the theory of Lord Keynes some measures are developed in capitalist

countries for using the rate of interest so as to regulate economic development in order to make it go smoother and, especially, more continuously. These measures are well known as "bank rate policy", "Open-market-policy", and "minimum-reserve-policy".

In socialism the rate of interest cannot have the function of regulating economic development. The continuity of economic development is, as known, ensured by the national economic plan and by the partial plans as well. Proceeding from this fact, the role of interest had been-and partially has been-understated in socialist economy. The more, however, socialist economy is tending to market principles, the more weight must be given to value categories. But by no means, never can interest be expected to play a primarily regulating role. This primary function must ever be practised by the national economic plan fixing the main proportions to be ensured so as to develop the national economy in the best way possible. The role of interest can only be a secondary one. And, therefore, it is more and more used as a so-called material incentive.

What does that mean?-Never will interest play a directly regulating role, but it must be used so as to ensure the observance of the fixed tasks quantitatively as well as qualitatively. For instance, a well working enterprise fulfilling its tasks qualitatively as well as quantitatively and in time will never have troubles as to the repayment of received credits. Thus, the rate of interest can be a relatively low one. Special or additional incentives aren't needed. If, however, an enterprise is not working well, that means, if the enterprise doesn't work in accordance with the given quantitative and qualitative indicators, if it isn't producing in time, and for all these reasons not able to fulfil the contractually fixed terms in relation to its partners, additional incentives will be necessary so as to force the enterprise in question to take pains to improve its activities. In such a case credit, and in particular the rate of interest, is supposed to play a very important role. No enterprise will be able to produce without credit. A certain part of its working capital-and even of its fixed capital-will be financed by means of credit. As

mentioned in our memorandum the granted loans must be repaid in conformity with the planned processes of the turnover of the enterprise funds. If, now, the process of turnover doesn't take place planfully, the enterprise, in question, will not be able to repay the loan punctually and the bank, on the other hand, will demand a higher rate of interest for the overdue credits. These exceeding amounts of interest must be paid out of the profit of the enterprise. On the other hand, however, profit is expected to cover expenditures so as to expand the fixed assets, the working capital, and last but not least the bonus fund of the enterprise. By the higher amount of interest all these mentioned funds will be at least diminished or even relinquished. In the first place, of course, the bonus fund. And that's understood, badly working people cannot expect to be rewarded.

If, in the first place, the other funds, needed so as to expand the fixed and the working capital, would be reduced, a so-called chain reaction would be induced aggravating the conditions of production within the enterprise in question.

So, as you see, the interest, and especially the different rate of interest, is used in socialist economy as a special form of material incentive inducing enterprises and all the single workers, clerks, and managers as well to improve their activities so as to increase profit; but not because of the profit but because of the production of goods marked by an ever growing quality and steadily lower prime cost.

Summarizing you can state, the rate of interest is used in socialist economy so as to increase production qualitatively and quantitatively, to disclose available resources, and so as to make the process of economic development go more quickly. And, I think, it doesn't need saying that the economic development aims at satisfying the requirements of the population on an ever growing scale. Thus, finally or in the last resort, the interest in socialism is serving this aim.