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FOREIGN SERVICE DESPATCH

866.01/1-555

FROM : American Legation, Bucharest No. 116

DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

January 5, 1955

REF :

Action: [Handwritten notes]

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SUBJECT: The Abolition of Rationing in Rumania

SUMMARY

The Resolution, effective December 26, 1954, abolishing rationing in Rumania appears to have had the following effects:

- (1) It reduces the purchasing power of urban consumers.
- (2) It has caused a wave of panic buying which may force peasant market prices up if the stocks of state stores are not maintained.
- (3) It may therefore represent a gain for the peasants at the expense of the urban workers.
- (4) The timing of the Resolution, its text and the circumstances surrounding its promulgation seem to point to its being a hasty, poorly-planned measure.
- (5) Although current fears of a new currency reform do not seem justified, the measure can be expected to have generally inflationary effects.

On December 27, 1954 the Rumanian press carried, as lead-articles, the text of a resolution of the Central Committee of the Rumanian Workers' Party and the Council of Ministers of the Rumanian People's Republic "On the Abolition of the System of Supply by Ration Cards and Rations." The resolution starts out with a preamble claiming that the abolition of rationing is a fulfillment of the objectives set by the enlarged Plenum of the Rumanian Workers' Party Central Committee of August, 1953; that 1954 was a successful agricultural year, with a total production of 9 million tons of cereals; that the contracting system has resulted in an increased production of meat; that investments in socialized agriculture and the consumer goods industries have increased by 40% and 27%, respectively and

that the circulation of

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that the circulation of goods in Socialist trade (in constant prices) has increased from 19 billion lei in 1953 to 22 billion in 1954. In view of all these improvements in production and distribution "the conditions have now been created" for the abolition of rationing.

A Summary of the Decision.

1. Effective December 26, 1954 rationing is abolished, except that employees and certain others, as well as members of their families, are entitled to receive sugar and bread both on tickets and free - at the same price in both cases.
2. Instead of the two-price system hitherto prevailing in Socialist trade; that is, a low price for goods bought within the ration and a higher price for goods bought outside the ration, a one-price system is adopted. In order to do this certain prices, such as those for corn, kerosene, childrens shoes and clothing and agricultural implements, among other things, are decreased while other prices, such as those for meat, beans, eggs, milk and spirits are increased.
3. To compensate for the difference between the cost of goods at the new prices (which in most cases are not different from those of the former controlled unrationed market) and the cost of goods at the old rationed prices (which were much lower) employees and certain others, including members of their families, are to be paid monthly tax-free subsidies out of the state budget. Workers who enter the "field of labor" after December 26, 1954 benefit from these subsidies only for themselves. They do not get subsidies for their dependents. The amount of the subsidies depends upon the person's former ration category. For instance, a person in category "C", perhaps the most common type, receives 51 lei a month. Other categories receive subsidies which are smaller or larger as the case may be. (See text of Resolution attached.)
4. Certain changes are made in the salary classifications of workers and clerks which apparently have the effect of raising the minimum wage and salary payments in force. That is; category I of worker (the lowest, apparently) is abolished, while salary groups in category II (in which the old category I is now included) are assigned new monthly wages. The highest of these is 250.92 lei and the lowest, 220.32. The monthly salaries of the lowest category of administrative personnel is also given, with a high of 300 lei and a low of 240. All other wage and salary classes are unaffected.
5. Percentages of reduction are given for those products whose prices are being cut. These range from 10% in the cases

of corn,

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of corn, children's clothing and systematic beehives with artificial honeycombs (!) to 13.3% for kerosene, 15 - 24% for rubber-soled leather shoes, 16.7% for agricultural implements, 30% for peasant carts and 37% for Kapron stockings. (Other items can be found in the text.)

6. Prices being increased are then set forth. Beef costs 6 to 10 lei per kilo, depending on quality; pork 8 to 13 lei per kilo and dried beans 2.70 lei per kilo. Milk and eggs are given two prices. That is, milk cost 1.50 lei per liter in the summer and 2.00 lei per liter in the winter. Eggs cost 0.75 a piece in the summer and 1.00 in the winter.

7. Having started with a congratulatory preamble, the Resolution ends with a hortatory peroration. The peroration is much longer than the preamble. It contains, along with the familiar injunctions to work more, faster and more cheaply, the significant statement: "It (the Resolution) will make possible the consistent application of the Socialist system of retribution (compensation) and encouragement of the workers, according to the quantity and quality of their work, \*\* \* \*". The general tenor of the peroration is that every producer must cooperate to ensure the abundant supply of food and consumer goods needed to make unrationed distribution a success and that the Socialist trading system must become more efficient and less corrupt.

#### Comments on the Text of the Resolution.

1. The claim of 9 million tons of cereal production in 1954 seems high, in view of previous production claims and of the aims set in the Draft Agricultural Decrees. (See Bucharest Despatch No. 101 of Nov. 29, 1954.) *566 20/11 24 53*

2. The claim is made of an increase in socialist trading from 1953 to 1954 of from 19 billion lei to 22 billion lei in constant prices. If the proportion of socialist trading to total consumer spending remained constant, this would imply an increase in consumption of about 15.8% in the year. It would imply an even greater percentage increase if the proportion of socialist trading to total trading declined because of the increase in private stores, the increased use of the peasant market and the diversion of goods from the Socialist sector through fraud. There may very well have been some increase in total consumption during the year, but 15.8% seems high. In any case the increase does not appear to have been spread evenly and there is reason to believe that it has gone more to peasants living near to big cities (who can market food) and to traders, diversionists and others with access to profit or illicit incomes. *with that 0.1-0.2 % of ca a-a 0.0 1000 0.2*

3. Sugar and bread

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3. Sugar and bread receive special handling. The evident purpose of the Resolution is to see that those previously entitled to these items on rations still find them available. To accomplish this they will be issued special cards in the near future. Just how this will insure a supply to these people is not explained in the decree - if the supply is adequate they will get theirs in any case, since everything will be sold at one price. If it is inadequate, some system will have to be devised to set aside quantities of sugar and bread to be sold only to card-holders.

It would appear, in any case, that the special treatment of bread and sugar reflects the poor 1954 wheat crop and current difficulties in the production of sugar beets, which are marked by frequent press references to sugar beet production and the issuance of a new sugar beet contracting decree.

4. The reduction in the price of corn should be of substantial benefit. Considering the two previous reductions this fall, the latter of which, on December 12, brought the price down from 2.20 to 2.00 lei per kilogram, and the present one, which should bring the price down to 1.80 lei per kilogram, it appears that corn supplies are abundant. The reduction in price in kerosene is not quite so clear in its effect. If it applied to the old rationed price of 0.50 per liter it would be helpful. If, as appears to be the case, it applies to the unrationed price of 1.50 lei per liter, it is probably a price increase in disguise, since it is no longer available, even in small quantities, at the low rationed price.

Other reductions, such as those for footwear, seem also to apply to controlled unrationed prices rather than to former rationed prices. It also seems doubtful in these cases whether the consumer will actually benefit. It would seem as if he would have to buy more shoes than are habitually bought by Rumanian wage-earners in order for the decreases in prices to equalize the loss of access to the former low rationed price.

Some reductions are obviously of no benefit to the average Rumanian. In this class are toys, radios, kapron stockings and agricultural implements (including systematic beehives with artificial honeycombs). It is noteworthy, in this connection that agricultural implements are reduced in price by 16.7% and peasant carts by 30%. Perhaps this represents a desire to aid the peasantry. If so, its inclusion in a Resolution which has been widely interpreted by the Rumanian urban population as a victory for the peasants in their push for higher agricultural prices represents poor public relations. On the other hand, it may be that the drafters of the decree included these items

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simply because (a) they were grossly overpriced to begin with or (b) they represent some of the few items whose prices can be reduced at the present time. Since this list is obviously not long, this factor must have been important.

The increases in the prices of certain foods may not be as severe as the Rumanian population seem to think. For instance, the old official price of eggs was 0.65 lei apiece. They have never, at any time, been available at that price anywhere where the public could buy. It has always been necessary to buy eggs on the peasant market at much higher prices. If now eggs are available at the official prices of 0.75 and 1.00 leu, there will actually be a saving. Similar reasoning can be applied in greater or less degree to other food items listed. The key question will remain the availability of these foods at official prices in state trading.

A significant omission from the list of items whose price is changed is black bread. This was formerly available at a rationed price of 0.70 lei per kilogram loaf and an unrationed price of 2.00 lei per loaf. With the abolition of rationing, the price of black bread is more than doubled, especially since rationed black bread has usually been available. Black bread is, of course, the staple of the Rumanian urban diet.

5. The compensatory subsidies to be paid employees vary with the former ration classification. The ration classification itself was related to the level of earnings, so that a leading worker making an above-average wage also got an above-average ration. The new system follows this trend and, at least as applied to wage-earners, those who earn more, get higher subsidies. It is perhaps the case that the ordinary C-card holder, who will get a subsidy of 51 lei per month, plus smaller subsidies for wives and children, will get enough to cover the difference in cost between the old rationed market and the new one-price state market. Rationed foods, such as meat, were often unavailable and if these foods are now available in state trading, the consumer may come out even. If they are not available and he has to go to the peasant market, he will be the loser. But it is doubtful if the new subsidy will cover his increased costs for clothing. Even though the rationed clothing allowances were very skimpy (See Despatch No. 154 of March 15, 1954) they did go a certain distance toward meeting his needs; and the Rumanian consumer is used to doing with little. When such items as wood fuel and coal are considered along with the special case of black bread, the urban employee appears to have lost a certain proportion of his purchasing power.

The provision that those entering the "field of labor" after December 26, 1954 will only benefit in their own persons from the subsidies

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from the subsidies (and thus, not for their dependents) may indicate that the subsidy system is not intended to be permanent.

6. The wage adjustments made do not appear substantial. The basic wage is tied to the accomplishment of a norm and, as can be seen from the low basic wage figures quoted in the Resolution, the attainment of a "living" wage, say 400 lei per month, depends on the earning of substantial increments for piece work. It would not seem that these adjustments have materially protected employees against a loss of purchasing power.

7. To those familiar with the jargon of Marxism the invocation of the Socialist system of compensation which appears in the peroration of the Resolution can only have the meaning that inequalities in income and consumption are to be fostered for the sake of increased production. To the extent that the former rationing system represented state-subsidized minimum consumption standards for the lower paid employees, its abolition is a move toward "Socialism" in this special sense, ameliorated, to a certain extent, by the subsidies which replace it.

#### The Circumstances Surrounding the Abolition of Rationing.

It has been rumored (Bucharest WEEKA, Section 2, December 17, 1954) that a delegation from the Ministry of Domestic Trade had gone to Warsaw to study methods of eliminating food rationing. Subsequent to the announcement of the Resolution abolishing rationing on December 27, it was heard that this rumor had been a plant and that actually a group from the Ministry of Domestic Trade had gone to Orasul Stalin (Brasov) to work out the Resolution in haste and secrecy. It is not known, of course, whether these reports are true or not, but other circumstances suggest that the Resolution may indeed have been worked out in haste. The more than usually sloppy draftsmanship of the Resolution plus the fact that the new cards for sugar and bread are not ready (and no one seems to know when they will be ready) argue for this assumption. For another thing, it was not announced until December 30 what would happen to the price of wood fuel. It was stated in Rominia Libera (Press Review 309/9) that wood had been derationed and that the price would be 150 lei per metric ton. Since the old rationed price had amounted to about 100 lei per ton, the new price means a still further increase in the cost of living which will not be covered by the wage subsidy and a still greater drop in the purchasing power of the urban worker. This may have been an oversight, but it may also have been a deliberate maneuver intended to muffle the impact of an important price rise.

Other circumstances seem also to argue for haste or poor planning, or both. The effective date of the decision, December 26, and the date of announcement, December 27 come near the end of an inventory period

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of an inventory period. That is, it is believed that the usual practice in state trade in Rumania is to take an inventory at the first of each month, reporting the results to the supervisory ministry. If this is the case, store managers were presented with a good opportunity to defraud the system on the occasion of the January inventory, by reporting part of the stocks sold after derationing as having been sold prior to derationing; thus pocketing some of the proceeds of the price increases. (Although this is not known by direct observation, this possibility has been suggested by an Israeli diplomat with unusually close contacts with a segment of the population closely connected with retail trade and who claims to be certain about the inventory system.)

Additionally, the time of the year may prove to have been poorly selected for derationing. As winter goes on, foodstuffs can be expected to become progressively scarcer. It would seem that the summer would have been a better time for such an experiment because of the absence of the scarcity pressure on prices which is bound to develop in greater or less degree during the winter.

On the other hand the state food and clothing stores were fairly well stocked before the Resolution was announced and appear to have been able to handle the huge crowds who have been buying in them since then without running out of stock. Of course, they have limited sugar, for instance, to one-half kilogram per customer and meat to one kilogram per customer. People have also had to show their identification cards when buying sugar. The evidence is, of course, inconclusive at this time. But if the stores begin soon to run out of food it will be a strong indication that the signs pointing to haste (or at least poor planning) in the promulgation of the Resolution were correct.

The regime was under a certain pressure to eliminate rationing at this time. The delay of the Second Party Congress was undoubtedly connected with the failure of the New Course, after more than a year, to produce any important economic successes. The abolishing of rationing can, at least, be interpreted as an economic improvement brought about by the New Course - there is probably very little else they will have to congratulate themselves about. For the rest, the fact that Rumania is behind the other European Satellites and the Soviet Union in the abolishment of rationing must be a source of embarrassment to the Communists, especially since Rumania was once famous for its agricultural surpluses. Christmas time is the traditional season for largesse on the part of benevolent rulers and the regime is trying, at least, to appear benevolent.

More objective factors

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More objective factors in the decision to abolish rationing may have been the good corn crop attained this year and, perhaps, some increase in meat supplies. The comparative plenty of corn at this time has enabled the regime to include in the announcement a reduction in the official price of the important item - although, if the Resolution were not concocted in haste, it would seem to have been a better idea to have reduced the price from 2.40 lei per kilogram to 1.80 all at one, instead of having two previous reductions preceding it. This would have enabled them to announce a 25% reduction in this item instead of a 10% one. As far as meat goes, any improvement in supply, which would probably be traceable to the contracting system and the attendant reduction in animal quotas for contracting peasants, would tend to enable the regime to keep the new unrationed meat prices somewhat lower than they might have had to rise.

#### Public Reaction to the Resolution

The population of Bucharest seems to have met the announcement with dismay. A reliable local source has reported that the workers at the Mogosoaia oil depot, for instance, did not hesitate to complain openly about the abolition of rationing and made bitter jokes about it. Rumors about an impending currency reform immediately began to circulate and people with money made haste to get rid of it. This led to long lines in front of the food stores in which there were occasional disturbances and hair-pulling contests. The greatest demand seems to have been for sugar, but there have been reports of people stocking up on other things, such as Rumanian cigarettes, in the expectation of further, perhaps unannounced, price rises and currency reform, or both.

The regime is undoubtedly interested in the public reaction and there are reports that plainclothesmen have been stationed in at least some of the stores to hear what the people have to say and to report on how they behave. This seems to be about what one would expect. This method of public opinion sampling has often been used in similar situations in Communist countries. There are other indications that the regime would like it to be believed that the people lining up at the stores are not honest workers but profiteers, private traders and rich peasants (those who can sell in Bucharest peasant markets). There may be a great deal of truth in this. Those who have accumulated large sums in the course of the past year through various legal, illegal or merely shady dealings would be the ones who would be most able to spend at this time and the most likely to have a fund which would have to be gotten rid of in the event of further price rises or a currency reform.

CONCLUDING COMMENTS

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It is too early at this time to state what the outcome of the Resolution is likely to be. But some comments may be made on the conditions surrounding it and the direction in which those conditions tend.

1. On balance, the Legation is prepared to believe that the Resolution represents a hasty, poorly-planned decision and that the comparative plenty just now (at least in corn) is only a fortuitous circumstance which, although it represents a factor in the decision to deration, does not represent an element in any definite plan to deration at any pre-planned target date.

2. On the face of it, it would appear that the urban wage or salary earner has lost a certain part of his purchasing power. Just how much could probably be determined by making up a sample family budget under both rationing and derationing. But such a determination would have to be based on the (often doubtful) assumption that rationed goods were always available in the quantities to which consumers were entitled.

3. The changes in selected prices may have effects on other prices. For instance, if ordinary meat is now more expensive, canned meats (whose prices have not yet changed) become relatively less expensive. If canned meats are sold faster at present prices, it may prove necessary for official prices of canned meats to be increased.

4. Much depends on the ability of the state stores to keep adequate stocks on hand in the face of the present buying wave. If they can meet present demand, they may be able to hold prices in the peasant markets steady, and may even be able to lower them. An article in Rominia Libera of December 30, 1954 (PR 309/9) provides a clue to the regime's hopes in this matter by claiming (probably prematurely) that free market prices are now dropping due to the competition of state stores.

If, on the other hand, state stores cannot supply present demand, peasant market prices should rise rapidly - there is a tendency for them to do so in any case because of the time of year. The next two or three weeks should be decisive and it is the intention of the Legation to prepare another price survey, perhaps at the end of January, as a basis of comparison with the price survey covering December 1 - 10 forwarded with Despatch No. 118g January 4, 1955.

5. Bucharest residents seem to have already prejudged the outcome of derationing. Exactly as people who run to withdraw

funds from a bank

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funds from a bank which is in difficulties make the failure of that bank more likely, so Rumanians who, in panicky expectation of runaway inflation followed by a currency reform, run to the stores to get rid of all their excess cash, make the very things they fear more probable. That public morale and faith in the government's competence and intentions which are needed to make such a delicate operation as derationing work are here entirely lacking. Rumanians expect the worst; act in preparation for the worst and help to insure the worst. The fact that the regime seems to want people to believe that the long lines of people rushing to spend their money are composed mainly of free traders, free professional people and rich peasants indicates its fear of what these people are doing. In any case, taking into account the direct effects of the Resolution, (including the tax-free subsidies to be paid out of a possibly already unbalanced budget) the public reaction to it and the results to be expected of possible future food shortages in state stores, the measure can be almost definitely designated as an important milestone on the inflationary road presently being followed.

6. If wage-earners are the losers in that their access to goods is reduced, who are likely to be the gainers? It is almost impossible to tell at this time. If peasant market food prices are sent up a certain segment of the peasantry are almost certain to be the gainers. If they are not sent up, it may be that the peasantry as a whole may be the gainers, since the maintenance of adequate food stocks in state stores might have to entail a continued dependence on purchasing foods from the peasants at attractive prices (and a consequent de-emphasis on required collections) plus a continued availability of goods at village cooperative stores, so that the money paid would have some meaning as a productive incentive. It has been suggested (see Despatch No. 203 of June 7, 1954) that the attainment of increased agricultural production might have to entail a diversion of resources from urban consumers to peasant use. The present Resolution seems to reinforce this conclusion, but the attainment of this reallocation of resources depends - as much now as ever - on the ability of the regime to prevent resources from being rediverted back to the cities through the fraud and corruption of those of its agents who deal with the peasants. It has not been entirely successful in doing so in the past. (See Despatch 104 of December 8, 1954). Whether it will be more successful in the future is doubtful.

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