I. THE FINANCIAL AND BUDGETARY SYSTEM

1. The Financial System

The financial system of the COMECON countries is much more comprehensive than in the Western industrial nations. The socialist economic system is based on central administration and control of economic processes and on government ownership of the means of production.

The following constitute "socialist finance": 1) the revenues and expenditures of the state budget, including social insurance, 2) the financial relationships of the state-owned and cooperative (i.e., "socialist") enterprises; 3) the credit and banking system; 4) the insurance system; and 5) international financial relations.1

The financial system is the totality of those money flows and monetary holdings which the state employs directly, distributing and redistributing them on the basis of imperative plans. In addition, the planning and control of the other monetary processes are as much the subject of "the science of socialist finance" as are achieving the "unity of material and financial planning" and analyzing the effects of government price policy.

The monistic character of the system for managing both social and economic life is reflected in the hierarchic structure of financial organization. Whereas the central decision-making organs of the Socialist Unity Party (Sozialistische Einheitspartei Deutschlands—SED) determine the basic principles of financial policy, the Ministry of Finance (Ministerium der Finanzen—MdF) is empowered by the government to be "responsible for the planning, balancing and accounting of state finances as a whole, as well as for the management and planning of the state budget."2 The Ministry of Finance is directly responsible for the budgetary and insurance systems, and shares other tasks with the State Planning Commission, the competent ministries, and the State Bank. Financial auditing is also the responsibility of the "Governmental Fi-

nancial Auditing Office" (Staatliche Finanzrevision), part of the Ministry of Finance. Special departments for "finances and prices" in East Germany's 14 regions, in (East) Berlin's 8 town districts, and in the 218 districts and 7,522 communities are subordinate to the Ministry of Finance. The "financial balance-sheet of the state," which shows the state's financial requirements and available revenues, is compiled by the Ministry of Finance and is adopted by the Council of Ministers. It is an instrument of medium-term financial planning for each five-year plan, but is not published. Financial control is not limited, of course, to the Finance Ministry; head bookkeepers in the state enterprises, foreign exchange clerks in the foreign trade enterprises, and budget supervisors in government institutions also perform control functions.

The budgetary system differs from other parts of the financial system in the following ways: 1) Only the state budget is annually legislated and is published in fragmentary form on two pages of the Law Gazette, as well as in the "budgetary accounts" on budget implementation; 2) the budget authorities manage the financial resources directly; and 3) the process of income redistribution via the budget is final and nonreciprocal ("the budget method").

2) Foundations in Budgetary Law

The 7 October 1974 version of the GDR constitution contains the basic norms for the economic system. It only grants to the financial system, however, the autonomy and the authority (to collect taxes and levies) that accrue to any central government. Specific provisions of budgetary law are contained in Budget Regulations of 13 December 1968.

The Budget Regulations Law differentiates among four types of Public Budgets or Budget Plans, which include all receipts and expenditures by the government organs and their subordinate institutions: 1) the individual plans of the central state organs; 2) the budget plans of the social insurance institutions; 3) the budget plans of the regions; and 4) the budget plans of the districts and communities.

