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ECONOMIC INTELLIGENCE REPORT

**REORGANIZATION
OF ECONOMIC MANAGEMENT
IN THE EUROPEAN SATELLITES
1956**



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REORGANIZATION OF ECONOMIC MANAGEMENT
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Summary

The inefficiency resulting from overcentralization in the economic management of the European Satellites has become sufficiently serious to warrant the increasing attention of Satellite leaders. Since 1955 they have been reorganizing the economic structure of the Satellites to make it less costly, less complicated, and more responsive to central policy decisions. At the same time, efforts are being made to decentralize some of the planning and operating functions to lower administrative levels with the intention of increasing the initiative and resourcefulness of those people who directly manage the economy on a day-to-day basis. In reorganizing the economic structure of the Satellites, central bureaucracies have been reduced and streamlined, with some ministries and other central organizations being merged or even eliminated.

The purpose of the partial decentralization of planning within the Satellites has been to simplify the national plans by limiting the number of production targets to be determined centrally. The details of the plans are to be filled in by officials of the middle and lower levels (regional, district, municipal, and rural governments), and there is to be less reporting to higher levels of management on the details of plan fulfillment. There is also to be more freedom for factory directors to make decisions concerning minor investments without central governmental approval.

The managerial reorganizations in the European Satellites have increased substantially the authority of economic officials at the middle and lower levels. These officials have been granted the power to make decisions concerning certain local investments, to have some voice in the preparation of the budget, to manage certain categories of enterprises, and to handle the procurement and sale of certain categories of agricultural commodities.

* The estimates and conclusions contained in this report represent the best judgment of ORR as of 1 August 1957.

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Factory directors in several of the Satellites have been given increased authority to plan and manage their resources. Their additional powers include the right to alter the plan of the factory within carefully defined limits, to change the internal table of organization, to appoint and dismiss department heads, to use production bonuses more freely, and to accept orders from other factories for certain categories of goods not included in the annual plan. Finally, some factory directors have been given authority to negotiate contracts directly with private firms both inside and outside of their countries.

There has been a growing tendency to introduce workers' councils or their equivalents in many factories. In Poland and Hungary, especially, the councils possess through their management boards certain "legal" rights to approve or disapprove of the appointment of key factory personnel, to issue directives to the factory management, to "advise" on production matters, and to have a voice in wage determination and the distribution of bonuses. The actual power of the councils to oppose the regularly constituted factory management appears more limited in practice than their legal authorization implies.

The economic reforms in the European Satellites can be expected to solve some of the more urgent administrative problems which have arisen in these countries. The reduction of duplication in management should result in reduced costs. Clarification and simplification of the managerial chain of command will be accomplished by assigning to each administrative level definite responsibilities not handled at other levels. Transference of minor decision-making power to lower levels of management should lighten the workload of central officials and also should result in more realistic economic decisions, since managers at lower levels, who are better able to appraise productive capacity, will be able to influence investment planning.

The long-range effects of the reforms are more difficult to anticipate. Piecemeal decentralization of managerial power may not resolve the apparent contradiction of attempting on the one hand to retain a high degree of centralization in planning and managing the economy and on the other to grant more independence to lower level officials. The current aim in the European Satellites is to make the two concepts mutually compatible.

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I. Introduction.

The USSR and the European Satellites have aimed at rapid industrialization and the maintenance of a high rate of economic growth. The leaders of these countries have realized, however, that to achieve these goals all available resources must be efficiently exploited. The two main resources which have not been fully developed, they contend, are those of management and technological developments.*

Failure to develop the full potential of the managerial structure is a result of the contradiction inherent in a highly centralized economic system which assumes on the one hand that the entire economy must be planned and directed in detail from the central government and on the other hand that a high level of efficiency must be achieved at the local level. About 1950 the Yugoslav leaders realized that to achieve high productivity at a minimum cost the initiative and resourcefulness of local economic managers (who themselves were becoming increasingly skilled) should be fully tapped. They came to believe that detailed central planning and direction of virtually all economic activity prevented officials at the middle and lower levels from discovering cheaper and quicker ways of operating factories and from devising new ways of increasing production.

The solution which the Yugoslav and later the Soviet leaders evidently considered more and more inescapable was to reorganize their managerial structures by simplifying them, by making them more streamlined and by partially decentralizing some planning and control of the economy to these lower officials. In February 1956, Khrushchev acknowledged that the training and experience of subordinate officials had now reached a point where they could be entrusted with increasing power and authority in economic management.

In Yugoslavia, then in the USSR, and finally in the Satellites the economic systems were partially decentralized.** At first the actual delegation of authority to lower levels was very cautious, limited, and confined to minor details in planning and decision-making. Gradually

* This report is confined to economic management and will not deal with technological developments.

** Decentralization may be functional or geographical in nature or may be a combination of both. Thoroughgoing decentralization involves establishing more than one center of policy determination. Most simply, decentralization refers to the transferral of some decision-making authority from higher to lower levels of management.

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the trend toward decentralization was extended further in Yugoslavia and in the USSR.* Yugoslavia has made more progress in this direction than have any of the European Satellites: it was, for example, the first to abolish its central ministries. The current Soviet reorganization along regional lines, probably the most radical and extensive Soviet reorganization since collectivization, may go almost as far in genuine decentralization as has the reorganization in Yugoslavia. The managerial reforms now in process in the Satellites appear to be following the earlier patterns set in Yugoslavia and the USSR.

II. Models for Managerial Reforms in the European Satellites.

In most of the European Satellites the pattern of reform within the past 2 years has relied heavily on Soviet experience. Since early 1956, and especially since the Polish and Hungarian uprisings of October and November 1956, there has been an increasing similarity between some of the Satellite reforms and those carried out earlier in Yugoslavia.

A. Soviet Model.

Managerial reforms in the USSR since 1950, apart from reorganization of ministries, transfers of factories, and limited decentralization of planning, included elimination of superfluous administrative links between central and local authorities, consolidation or abolition of parallel and duplicating organizations, and reduction of the number of administrative staff personnel in various headquarters organizations. Most recently the Soviet economy has been undergoing an extensive reorganization aimed at decentralizing large parts of the managerial apparatus and reorienting Soviet industrial organization from a functional approach to one that is regional. Since May 1957, Soviet officials have abolished 27 national ministries, reorganized the central government and planning apparatus, and established 105 economic regions throughout the country to guide and direct industries and construction activities of national importance.

1. Decentralization in Planning.

Since 1953 the national economic plan of the USSR has been partially simplified. The number of specific commodities for which

* Central over-all planning and control as well as broad policy determination has not been delegated to lower levels.

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production targets are established by central officials was reduced from a total of 5,000 items in the 1953 Plan to a total of only 1,700 in the 1955 Plan. 1/* It will be reduced even further as a result of the reorganization of May 1957. This reorganization delegated responsibility for drawing up minor details in the national plan to a level where they could be more realistically determined. The expected result, from the Soviet point of view, is that factories will now have production targets more in accord with their actual and potential capacities.

Ministries also have been given other planning powers. These include limited authority to change general plans of subordinate units; the right to modify financial plans within certain limits; and authority to transfer and reallocate several categories of personnel, materials, and supplies. 2/ Directors of factories have received additional authority to plan certain details of production assignments. For example, directors have the right to modify quarterly production plans for certain finished commodities. 3/

2. Increased Powers for Factory Directors.

One of the most needed managerial reforms in the USSR has been the granting to factory directors power and authority more commensurate with their responsibilities. Among the additional powers which factory directors have recently acquired, apart from planning, are limited authorization to sell the surplus materials and supplies of factories; the right to accept from other factories independent purchase orders which are not a part of the fixed plan; the power to alter, within limits, technological processes; the prerogative to change the table of organization and the power to exercise greater discretion over the use of funds assigned to factories. 4/

B. Yugoslav Model.

Managerial decentralization in Yugoslavia rests, in part, on the belief that adequate incentives for workers, coupled with more or less free cooperation between factories and other local units of the economy, encourage more efficient management and render a high degree of administrative centralization unnecessary and even harmful to higher productivity. 5/ In fact, Yugoslav theorists contend that further "democratization" of industrial management as exemplified in more thoroughgoing decentralization is a necessity for the successful

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"achievement of socialism." It is claimed that state ownership of production is inconsistent with true socialism, under which production is the responsibility of the producers themselves. 6/

1. Organizational Decentralization.

One of the most extensive managerial reforms undertaken in Yugoslavia since 1950 has resulted in a significant decrease in centralization within the bureaucracy. Central economic ministries which formerly directed specific branches of industry have been abolished, and their duties have been divided among other governmental bodies as follows 7/:

<u>Function</u>	<u>Supervising Governmental Body</u>
Coordination and over-all policies	Councils, committees, and boards composed of national and republic officials
Administration	Councils of peoples committees* and ministries of constituent republics
Production	Councils of producers**

One result of this reorganization has been that many administrative units of the government at the republic and local levels have been drawn into direct management, which was almost exclusively under the jurisdiction of the central bureaucracy. 8/ The councils and boards (jointly national and local) which now guide industry appear to have reduced the bulky central administrative apparatus and measurably to have enhanced the degree of economic decentralization.***

2. Partial Decentralization of Planning.

Before 1950, central planning in Yugoslavia was closely patterned after that of the USSR. Under the new planning structure

* Units of local government.

** One house of the two-house legislature, elected by the workers and existing at the national, republic, and local levels.

*** The national government maintains over-all control over the economic apparatus through the broad supervision exercised by the national Economic Council.

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which started sometime in 1950-51, central planning, which is done by the Chief Planning Administration,* has been restricted to setting broad production goals for basic materials, over-all investments, minimum wages, tax rates, and national revenue. Responsibility for completing the details of the national plan rests with the republic governments; the worker-elected management organs; and, in some cases, individual factory units. Control and guidance over plan implementation is maintained by the national government through the participation in industry at all levels of the powerful national Economic Council. 9/

3. Role of the Workers' Councils.

The contribution of Yugoslav managerial decentralization is found not only in its reorganization of the central government but also in its establishment of workers' councils in individual factories.** By official admission the workers' councils constitute the basic unit in the entire program of Yugoslav decentralization. 11/ The success or failure of much of Yugoslav decentralization probably will have to be judged on the record of the workers' councils.

The fundamental principle of the workers' councils is that they are elected by the workers; the councils then elect management boards to manage the factories in conjunction with the factory directors.*** The legal power of the councils includes the following 12/:

a. Election from among the workers of a factory management board and retention of power to dismiss the board.

b. Adoption of wage regulations.

c. Formulation of operating plans for the factory supervision of balance sheets.

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* Composed of three national officials and the heads of the planning commissions of the republics.

** Soviet officials will soon organize "production councils" in factories, which will be somewhat similar to yet less influential than the Yugoslav workers' councils. 10/ (For a few months in 1917 and 1918 the Bolshevik Government of Russia permitted workers' committees actually to manage the factories.)

*** The workers' councils also elect councils of producers which, in turn, constitute one of the two houses of the legislature at the republic, district, and national levels.

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d. Distribution of part of the profit of the factory among such categories as wages and amortization.

Supposedly, Yugoslav workers' councils control and direct the management of the factories. In practice the councils appear less influential than their legal charter implies. Tito has been quoted as saying that implementation of laws giving workers control over the factories will depend on "the pace of cultural development" (evidently meaning how soon the workers can become responsible and mature). 13/ Other limitations on the actual influence over management by the workers' councils stem from a lack of technical and managerial knowledge on the part of the members of the councils' management boards; excessive demands on the time of the members, who have regular factory assignments apart from their duties on the board; the power of the factory directors to postpone action on decisions of the boards; and, finally, effective control of both the management boards and the workers' councils by the local Communist Party officials. 14/

The development of the Yugoslav system of workers' councils, despite its seeming imperfections, has set a pattern which several other Communist countries plan to adopt in one form or another.

III. Reorganizations of the Central Governments.

Limited decentralization of the managerial structures in the European Satellites normally has begun with a partial reorganization of the central governmental structures,* designed to eliminate overlapping organizations and superfluous personnel, to simplify the administrative chain of command, and to delegate responsibility for specific functions to appropriate lower levels.

The most extensive reorganization of the central governmental structure in the Satellites has occurred in the Polish government. Since the uprising of October 1956 a number of central staff offices have been dissolved, the State Planning Commission has been abolished, and a new and smaller commission with considerably reduced functions has been formed to take its place. The Council of Ministers was reorganized, special committees were established to handle special problems, and an Economic Council was set up.

* Central governmental structure includes the main organizations which comprise a national government, such as the Council of Ministers, ministries, and other key national organizations.

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In reorganizing the Polish Council of Ministers, bureaus as well as branch specialists of industry attached to the deputy premiers were eliminated. At the same time, 3 temporary organizations were created and attached to the Council -- 1 for industrial production, 1 for building and transportation, and 1 for agricultural production and rural problems. 15/ In addition, special committees were established for investment plans, government housing, water economy, and plan technology. 16/

Effective on 1 January 1957 an Economic Council was formed under the Polish Council of Ministers. The Economic Council is composed of 35 members (prominent economists and scientists) and will function as a temporary advisory body. The main task of the Economic Council is the preparation of a "Polish model of a socialist economy." It will deal with both current and long-range economic problems. According to one of the deputy chairmen, these problems will include such questions as the "autonomy and decentralization" of enterprises; a reform of the present system of prices, wages, and incentives; the comparative and appropriate rates of growth in the various branches of the national economy; and the possibilities of and limits to a rise in the standard of living. 17/ The first plenary meeting of the Economic Council took place on 9 February 1957. 18/

The Polish government recently abolished the Ministry of State Control and established in its place a Supreme Control Chamber subordinated to the Sejm, or to its inner group when the Sejm is not in session, rather than to the Council of Ministers. 19/ The objective of this change is to broaden state control to include checking by the legislative branch (the Sejm) on administrative decisions and decrees as well as on the executive branch of government (the Council of Ministers).

The Polish Council of Ministers in the latter half of 1956 transferred some of its prerogatives to the individual ministries. Ministers may now exceed planned production costs and losses and make certain changes in the investment plan, within limits. 20/ Banks also were given additional responsibilities by the Council for controlling wage funds in order to prevent excessive expenditures attributed to "loosened wage discipline" on the part of some lower level supervisors. 21/

A number of ministries in Poland, such as the Ministries of Forestry, the Food Industry, Internal Trade, and State Agricultural Farms, have undergone reorganization since mid-1956. In foreign trade, import-export companies such as Polimex (machinery) and

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Varimex (miscellaneous equipment and consumer goods) are being replaced by individual firms which will be "state controlled" but will have more operational freedom than their predecessors. In addition, the Ministry of Internal Trade has established local boards of trade in each of six cities to supervise local trade enterprises. In larger towns, municipal boards of trade will be established to handle local trade matters. 22/ Finally, a new draft law has been drawn up which provides for the merger of 10 economic ministries into 5 ministries. 23/

The extensive reorganization of the Polish government illustrates the intention of present Polish leaders to focus the reorganization on their own specific needs rather than to follow automatically the Soviet pattern of development. In this manner, central bureaus attached to deputy premiers were abolished, the State Planning Commission was reduced in influence, and an Economic Council was set up to develop a Polish "model" of socialism.

In June 1956, Czechoslovakia merged several ministries, offices, and state committees in order to simplify the ministerial structure and make it more flexible. In this merger the newly created Ministry of Agriculture and Forest Economy, for example, assumed many of the functions of the former Ministries of Agriculture, State Farms, and the Forest and Timber Industry. Furthermore, much of the actual control over state farms was decentralized to the appropriate regional committees. Other aspects of this reorganization were aimed at clarifying the structure, such as removing wood processing from the control of the old Ministry of Forestry and Timber Industry and placing it under the control of the new Ministry of Consumer Goods. As part of these measures for simplification, the ministries, moreover, are to be freed of some of their time-consuming indexing, reporting, and other minor administrative tasks. 24/

In addition to the ministerial reorganization in Czechoslovakia, which includes the transfer of many ministerial functions to regional councils and committees, the administration of a number of ministries has been made more efficient. Examples are the simplification of the dispatching procedure in the railroad system of the Ministry of Transport and the reduction in number of chief directorates of the Ministry of Building. 25/ In an editorial the Czechoslovak Party newspaper stated that the objective in the new managerial reorganization is to remake the ministries into small, directing bodies, which will confine themselves to broad problems of coordination and of long-term planning. 26/ Also, heads of budgeting organizations in ministries are to receive greater authority regarding the internal

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transfer of employees and the establishment of salary scales. 27/

In April 1957 the East German government established an Economic Council attached to the Council of Ministers. The duties of the Economic Council are to coordinate and supervise the drafting and implementing of the annual plan and to make decisions on allocation of material and financial resources. It will also supervise the state budget as well as insure uniform and comprehensive direction of the economy. Reportedly the new council will relieve the Council of Ministers of much of its detailed direction of economic management. The Economic Council will be composed of leading officials, such as the Chairman of the State Planning Commission and the Minister of Finance. 28/

In Hungary the following ministries were abolished effective 31 December 1956:

Agricultural Procurement	State Farms*
Town and Country Management	State Control

In addition, a decree of the Presidential Council dated 1 January 1957 merged some other ministries as follows:

<u>Reorganized Ministries</u>	<u>Present Ministries</u>
Mines and Power Chemical Industry } Light Industry } Food Industry } Education } Popular Culture }	Heavy Industry Light and Food Industry Culture

Furthermore, several bureaus and offices dealing with labor affairs reportedly will be abolished and replaced by a single Ministry of Labor Affairs. 30/

* Reportedly to be replaced by a Chief Directorate of State Farms in order to grant to subordinate organs greater independence in crop selection and investments. 29/

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In Rumania there has been a substantial reduction in the number of ministries (from 30 to 16) and other central institutions through abolitions and mergers. Following are the Ministries affected:

<u>Reorganized Ministries</u>	<u>Present Ministries or Departments</u>
Cults (Nationalities)	Department of Cults
Health Social Insurance	} Health and Social Provision
Education Culture	} Education and Culture
Communal Administration and Local Industry	Affairs of Local Organs of State Administration
State Farms Agriculture Forestry Produce Collections	} Agriculture and Forestry
Petroleum and Natural Gas Chemical Industry	} Petroleum and Chemical
Construction Building Materials	} Construction and Building Materials
Posts and Telecommunications Road, Water, and Air Transport Railroads	} Transport and Communications
Domestic Trade Foreign Trade	} Trade
Light Industry Lumber Industry Food Industry	} Consumer Goods
Defense	Armed Forces

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<u>Reorganized Ministries</u>	<u>Present Ministries or Departments</u>
Electric Power and Electric- Technical Industry Metallurgical and Machine Building	} Heavy Industry

The Ministry of Produce Collections was one of those abolished. The abolition followed the recent abandonment of compulsory delivery quotas for many agricultural products. 31/ There has been a reduction in the number of officials of ministerial rank, and the central staff of the Council of Ministers has had its workload reduced. The State Bank has been reorganized and given a more independent status under the Council of Ministers in order to tighten control over the execution of financial and currency plans. Finally, as in Poland and East Germany, an Economic Council has been established to deal with broad, over-all problems of the economy. The official rationale for these changes is that large numbers of central organizations no longer manage the economy satisfactorily in the light of present requirements. 32/ The government does not admit that these reorganizations are aimed at improving the deteriorating Rumanian economy, which has been suffering from decreased state revenues, unemployment, poor crops, shortages in consumer goods, and inadequate housing.

Bulgaria has reorganized a number of its ministries in accordance with a government decree of 17 January 1957 in order to streamline its economic structure. Some ministries, committees, and directorates were merged. From the 10 ministries, committees, and directorates involved, 5 ministries have been formed as follows:

<u>Reorganized Ministries</u>	<u>Present Ministries</u>
Building Materials and Timber Construction	} Construction and Building Materials
Post, Telegraph, and Telephones Transportation	} Transportation and Communications
Education Culture	} Education and Culture

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<u>Reorganized Ministries</u>	<u>Present Ministries</u>
Finance State Control Commission } Domestic Trade Foreign Trade } }	Finance and State Control Trade

By this move, the government hopes to reduce the over-all state apparatus by 30 percent within the next 3 years. 33/

IV. Partial Decentralization in Planning.

Leaders of the European Satellites apparently do not intend to abolish or even seriously to weaken the basic Communist principle of centralized, national planning. They do wish, however, to make planning more flexible, more realistic (in terms of present and potential capacity), less costly, and less time consuming. Accordingly they have been confronted with the difficult problem of how far to go in transferring functions from central to lower echelons without violating the basic Communist principle itself.

In mid-1956 the Czechoslovak Communist Party called for annual planning to be simplified and its functions "gradually transferred" to lower authorities. Party officials stated that simplification and decentralization of planning for material-technical supplies, financing, and capital investment will make it possible for the ministries to concentrate on the principal economic problems facing them, thus freeing them from minor administrative details. These measures should also reduce the size of the ministerial staffs. 34/ In 1954 the government centrally fixed over 2,200 plan targets including production goals for over 950 specific commodities in the national plan. In the very near future it should be possible (according to a Czechoslovak editorial) to limit the centrally fixed targets to only 850 and the production goals for specific commodities to only 400. 35/ In the 1957 Plan the centrally fixed targets will number four-fifths of those for 1956 36/ (the number of targets for 1956 is not known).

A Czechoslovak editorial argued in July 1956 that present economic control methods are inflexible and have prevented the fulfillment of the "requirements of continued economic growth" (evidently implying

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that they are too costly to maintain). This inflexibility stems directly from the restrictive nature of excessive centralization. 37/ Accordingly, Czechoslovak ministries have been given authority to build up certain commodity reserves and to carry out minor adjustments in the plan which seem unavoidable. Ministers also have been given more power to transfer their funds and to allocate surplus production. Even factory directors are to be granted greater freedom of action regarding these two functions. Earlier limits for above-plan construction (that which is not included in the original plan) are to be raised to give additional leeway to ministers and to the regional committees. The data from lower level organizations required by central authorities for approving construction planning will be reduced. Factory administrations will have greater power to use their managerial funds and excess profits for minor investments. Ministries and regional committees also will have greater power over local investment. 38/

The agricultural directorates of the Czechoslovak regional committees are to be the decisive authorities for determining agricultural investments. These committees also will have increased power in planning for machine tractor stations, formerly the sole prerogative of the central government. 39/

In December 1956, Polish leaders stated that future planning must be oriented to specific Polish problems. The Polish government wants to decentralize both planning and management more than has been the case in the USSR. Unlike Yugoslavia, Poland reportedly will retain central planning only insofar as it is considered necessary by the officials.* Central planning, accordingly, will be restricted to setting the main targets for key industries, establishing general wage funds and principal investments, and setting prices for only certain articles of the key industries. 40/

In light of the foregoing, Poland reorganized its planning structure in 1957 by abolishing the State Economic Planning Commission (Panstwowa Komisja Planowania Gospodarczej -- PKPG). The commission was criticized for interfering with management of industry and for being a large, entrenched bureaucratic apparatus. It comprised 40 subdepartments and employed about 1,800 people. In its place a new planning commission was established with less than 30

* Yugoslav officials contend, however, that their system embraces centralization only where absolutely needed.

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subdepartments and less than 1,000 people. Unlike its predecessor, the new commission will be confined to over-all planning and will not concern itself with detailed planning or with incidental control and supervisory functions over industry. Furthermore, the new commission will not have the power its predecessor had to issue to ministries and peoples councils binding directives on managing industry. 41/

In Hungary, only a 1957 Plan has been drawn up at the present time. Later, a Three Year Plan probably will be instituted. 42/ This apparent lack of long-range planning may be as much, if not more, the result of the recent Hungarian uprising than of any intention to reorganize the planning structure. There has been, however, some conscious decentralization of decision-making within the planning structure, chiefly by limiting the number of centrally fixed commodities. Henceforth, only the most important commodities will be included in the national plan by the central government. Furthermore, the ministries and factories may omit from their annual plans quarterly breakdowns of many commodities. In 1957, central determination of specific targets will be reduced by 35 to 40 percent below targets of the previous year. 43/

In agricultural matters the Hungarian Council of Ministers will give more planning authority to local government councils. Market prices will be set by the central government for only 19 specific agricultural products. Drafting of the detailed cultivation plan is to be left to members of producer cooperatives -- following confirmation by the appropriate district agricultural department. Finally, direct negotiations for planning purposes are now permitted between producers and buyers of farm products. 44/ To assist in this limited decentralization of planning, the government decided in mid-1956 to enlarge counties and county districts, thus enabling them to take care of the new planning functions delegated to them by the central government. 45/

The East German State Planning Commission in late 1956 issued a regulation providing for some decentralization in the administration of state-owned factories. These factories are no longer to submit preliminary reports on annual and long-term plans (particularly on labor force requirements, labor productivity goals, wage funds, and services for employees) for study and approval to the central government, but rather they are to submit them to the county (Kreis) councils. State-owned factories have also been given the right to object to their part of the annual plan and to offer counterproposals to it. 46/

The number of centrally fixed production targets in East Germany has

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been sharply reduced -- from 950 in 1955 to 810 in 1956 and to 440 in 1957. Moreover, officials of the State Planning Commission believed that control over the production of at least some consumer goods should be transferred from the ministries to the district (Bezirk) and county councils because the latter are considered to be in a better position to assess local requirements. 47/ Allocation of consumer goods is also to be assigned, in large respect, to district and county councils. Formerly, such allocations were made by the Ministry of Trade and Supply. The councils now may use their discretion in allocating commodities by categories, according to the needs of the various trade organs. This limited decentralization in allocation will enable local retail outlets to purchase a limited quantity of commodities directly from the producer. 48/

In Rumania the individual commodities for which production targets are established by the national plan have been reduced to 375 in 1957 compared with 470 in 1956. Furthermore, commodities included in ministerial plans were reduced by 2,500 in 1957 -- to roughly half of what they had been in 1956. The national plan of 1957, for example, no longer sets the targets for kerosene, galvanized tin pails, brushes, and pencils. These items will be manufactured by producing factories only at the request of consuming factories and supply organizations. The effect of this change is intended to permit factories to discontinue formal planning a full year in advance for such minor commodities. Moreover, the quality of these items will be improved because a consuming factory -- if it is not satisfied with the products of one producer -- will be able to contract for these commodities with another producer. 49/ This authority to change producers, however, may open the door to more serious modification of centralized allocation than was originally intended.

Decentralization of planning in the Satellites has been chiefly directed at delegating to lower managerial levels more and more of the details of plan formulation. The immediate advantage should be to achieve more realistic planning by more accurate determination of existing and potential productive capacity.

There are limits, however, to which delegation of planning functions can be carried out without damaging the basic concept of centralized planning. It is not certain, for example, that Satellite leaders can safely delegate all minor planning functions and yet retain major policy determination at the center.

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V. Increases in the Power of Middle and Lower Level Management.

One of the main techniques in recent Satellite reorganizations has been to partially decentralize minor decision-making authority to middle and lower managerial levels.*

A. Middle Level Management.

By mid-1956, Czechoslovakia had decided to grant to its regional national committees** considerably greater power. The Czechoslovak Communist Party stated that the regional committees, not the central government, should make final decisions in questions concerning agriculture, local economy, education, culture, and the health service. Ministries responsible for these functions are to transfer gradually to the regional committees the power to make more decisions on the utilization of materials, capital investment, financial resources, and manpower. 50/ In this the Czechoslovak leaders were ahead of Soviet decentralization programs and followed more closely the rather advanced Yugoslav program.

The regional committees in Czechoslovakia are to be given expanded supplementary budgets as well as greater over-all financial flexibility. The committees will also manage state farms; motor transport (including the repair of small- and medium-size motors); water and sewage installations; and retail trade outlets. Finally, decentralization is to be carried out within the jurisdiction of regional committees themselves by their delegation of greater power and authority to subordinate district, city, and rural committees. 51/ This latter point was the subject of a government resolution adopted on 24 July 1956: On 22 December 1956, Premier Siroky criticized the implementation of this program by noting that the directives for further decentralization of functions down to the district and local committees had not yet been carried out. 52/ Additional plans for expanding the role of regional and subordinate committees were to be completed, and the new system was to be in full operation by 1 January 1957. 53/

Apart from ministerial reorganization, national committees and provincial councils in Hungary (units of middle and lower level government) have been granted greater economic powers. National

* Including district, city, rural, and factory management.

** These committees are organs of local government existing at the regional level.

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committees are now permitted to prepare budgets for factories and other subordinate organizations such as state transportation companies and state and collective farms. These budgets were formerly drawn up by ministers. 54/ The fiscal authority of provincial councils has been expanded, as has been their right to transfer the subordination of a number of enterprises and institutions from one organization to another. The provincial councils also have authority to construct and maintain roads. 55/

On 9 February 1956 the East German government made provision for the transfer of certain administrative functions, when and if necessary, from higher to lower managerial levels as follows 56/: (1) inspection of trade and maintenance of roads, from central ministries to district (Bezirk) governments; (2) local, state-owned enterprises and determination of investments for some local construction, from districts (Bezirke) to cities (Staedte) and towns (Gemeinden); and (3) service and supply enterprises (except suppliers of power), from counties (Kreise) to cities and towns. This authorization for transferring certain managerial functions somewhat modifies the former system of highly centralized control.

Rumania also has been giving greater power to peoples councils.* The contracting and procurement of agricultural products, following the abolition of the former Ministry of Collections, has apparently been turned over to the executive committees of these councils. In 1957, some enterprises of rather minor importance reportedly are to be transferred to the jurisdiction of the councils in a test region. If the experiment is successful, the transfer reportedly will be applied throughout the country. 57/ A later report stated that the councils will manage a number of enterprises, such as certain food industries, construction, trade, and utilities. 58/ Finally, the peoples councils are to receive greater authority over budgetary matters for their respective areas. 59/

B. Factory Management.

One of the highlights of administrative decentralization occurring in Yugoslavia and the USSR since 1950 has been the steadily increasing authority given to factory directors. The director has received greater decision-making powers, chiefly by being permitted wider latitude in utilizing the resources at his disposal.

* Organs of local government on the regional, district, city, and rural levels.

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A new Czechoslovak law regulating national factories and "certain other organizations" took effect on 1 January 1956. In addition, a decision of the Czechoslovak Communist Party in mid-1956 further extended the powers of factory directors. They have been granted independent decision-making authority in all matters not specifically reserved to ministries and the government. 60/ They also now have the right to alter delivery terms of products and equipment in agreement with the consumer (within the framework of the quarterly plan); to add certain production tasks to the plan; to define and change the table of organization of the factory; to appoint and dismiss the heads of factory departments; and, within certain limits, to determine salaries, introduce piece work, and set norms which have not yet been established by higher authority. Also the director will now have the power to approve bonuses and payments from a special fund, to engage in limited transfer of operating funds, to dispose of specific categories of surplus raw materials, and to write off small claims and approve certain losses within limits set by higher authorities. 61/

In Poland a decision of 9 April 1956, adopted by the Communist Party Central Committee and the Council of Ministers, considerably expanded the authority of factory directors. Among their more important powers, factory directors now have the right to approve detailed plans for their factories (within the framework of the annual plan); to work out the detailed organization of their factories (including the authority to alter certain wage scales and to fix temporary work norms); to accept orders from other state enterprises; to market their products directly (if such does not detract from plan fulfillment); and to utilize certain funds for specific purposes, such as modernizing plant equipment. 62/ Following the uprising of October 1956 the factory directors, according to a draft resolution of the government of November 1956, were given additional rights covering such fields as the approval of prices for commodities in agreement with the purchaser, the determination of investments and capital repairs, the sale of surplus commodities, and the general field of employment such as hiring and wage setting. 63/

In July 1956 the Hungarian government reportedly transferred three food enterprises to the status of "independent economy": that is, the enterprises have the right to make their own marketing contracts, to accept work orders, and to determine the distribution of 70 percent of their profits. 64/ In January 1957 the government authorized three industrial factories (the Ganz Freight Car Company, the Hungarian Freight Car Company, and the United Incandescent Company) to negotiate

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trade contracts directly with foreign companies (presumably including Western firms). This greater freedom will enable these factories to gain direct experience in the requirements of foreign markets. 65/

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in the spring of 1956 four Hungarian factories were reorganized according to the Yugoslav system: that is, the directors were given authority to set wages; to contract directly with other factories without going through the state machinery; and to determine distribution of profits, provided part of the profits would be used to raise wages. Finally, if the system were effective, it would be introduced throughout the Hungarian economy. 66/

East Germany, in early 1957, announced that factory management in the current year will exercise greater control over its investments for maintenance of building and machinery. Management will also have more authority in matters of employment and will have greater voice in disposing of its own operating funds. 67/ The increased authority of enterprise management follows from the additional authority granted to directors in late 1955 to have more control over their own tables of organization, production technology, acceptance of independent purchase orders from other factories, and the general expenditure of their funds. 68/

In Rumania also, the authority of factory management was increased in 1957. Factory directors now have the necessary authority to hire and train the workers they need. More responsibility for planning and administering the wage fund has been given to factory directors, including the right to reward workers (in consultation with the factory committee). In addition, the planning for and supply of 2,500 products recently was transferred from the jurisdiction of ministries to that of factories. The factories also are to be given more control over the distribution of their above-plan profits. 69/ Most significantly, however, factories and state farms in Rumania reportedly are to have freedom to make purchases outside the socialist sector of the economy. 70/

The increased authority of management at the middle and lower levels in the European Satellites reveals several interesting developments. Czechoslovakia, in granting additional managerial responsibilities to its regional committees, has anticipated the rather extensive decentralization of economic power now under way in the USSR. In both countries there is a conscious effort to grant to middle level managers some of the administrative authority for operating the economy which

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was previously reserved to the officials in the central government.

The powers of factory directors in the European Satellites, following the trend of the past few years in the USSR, appear now to be more commensurate with their responsibilities. The most important development, however, seems to be in the expanded power of factory directors to contract with one another, to negotiate directly with foreign firms, and to purchase some commodities from private enterprises.

VI. Establishment of Workers' Councils.

In Poland, Hungary, and East Germany, workers' councils* have been established in an attempt to achieve a measure of internal factory decentralization by placing in the hands of workers some of the managerial power previously reserved to the director and his staff. The objective is to "democratize" factory management, thus exploiting more fully the initiative as well as the technical and administrative ability of the workers. It is hoped that such action will result in a speed-up of production as well as in a lowered cost of production.

Late in November 1956 the Polish government drew up a draft bill on the organization of workers' councils. It stated that the councils are the highest authority within the factories. 71/ One official announcement stated that the basic principle of the new Polish economic model is "the independence of socialist enterprises based on administration by the workers councils." 72/ The draft bill of November 1956 sets forth the powers which the councils will have. These include authority to elect an executive presidium which will manage the factory on behalf of the workers; to accept or refuse the appointed director and other key officials of the factory; and, following refusal, to propose their own candidates for these positions. If, however, there is a conflict between the workers' council or its presidium and the director of the factory regarding factory administration, the director may suspend the decisions of the council or its presidium. In such a case the matter will be referred for decision to the appropriate minister or presidium of the regional government. 73/

Workers' councils reportedly have been established in 35 factories of the Polish engineering industry. Effective 1 January 1957, one of

* Called workers' committees in East Germany.

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these factories inaugurated a workers' council. The council is to meet quarterly, and its resolutions are to be binding on the director. If the director disagrees with the presidium of the council on an issue, an extraordinary meeting of the workers' council will make a final decision. 74/ At the Zeran Motor Car Factory in Poland a workers' council of 40 members was elected on 5 December 1956. The presidium of the Zeran council is reportedly the highest authority in the factory to which the director will be subordinate. The director will execute the instructions of the council on inner-factory matters, although he is still to have full power over factory management, and the council will have the power to nominate and dismiss the director. 75/ The actual power of the councils over production decisions, however, is still unclear.

In Hungary, after a period of much confusion over the legal status and actual influence on government of local workers' councils during the rebellion in late 1956, a system of factory workers' councils is gradually being introduced. By Decree No. 25 of 1956 the Hungarian government stated that only manufacturing factories, mines, and similar organizations were entitled to establish workers' councils. 76/ Indications are, however, that such councils have been formed in a considerable number of agricultural production cooperatives and state farms. 77/ In January 1957 the official gazette of Hungary issued a decree on the appointment and dismissal of leading officials of factories and agricultural organizations such as the chief engineer, the chief accountant, and the chief agronomist. In such personnel actions the consent of the presidium of the appropriate workers' council is required. The appointment and dismissal of administrators not in the leading category, however, remains the sole responsibility of the director. 78/ [redacted] little information is available on the specific power over production which the councils may possess. FORM 1
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In East Germany, workers' committees are to be established in factories which, according to Walter Ulbricht, will differ both from the Yugoslav and the Polish models. The committees will not possess autonomy but probably will have some voice in setting work norms and in distributing certain production bonuses. Wage setting and the right to hire and fire workers reportedly will be left to the trade unions, although it is doubtful if the unions will have such power in practice. 79/ [redacted] the committees will assist in formulating factory plans and will influence the distribution of bonuses, job classification, and other "important" personnel matters. 80/ 50X1

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The relative newness of factory workers' councils in the European Satellites precludes a meaningful evaluation of them at this time. In Poland the councils apparently are destined to become a significant force in factory management but in Hungary probably somewhat less so. In East Germany the committees probably will have few real powers to influence management. Certainly the councils could become an important management device if they are permitted to exercise a measure of genuine authority.

VII. Conclusions.

The current reforms in economic management in the European Satellites can be expected to solve some of the more urgent administrative problems, and elimination of waste and duplication should result in a considerable reduction of administrative costs. The managerial chain of command will be both clarified and simplified, chiefly by assigning to each administrative level definite functions not covered by other levels. The transfer of minor decision-making and planning authority to lower levels should measurably lighten the workload of the central government officials and also should result in more realistic decision-making and management.

The long-range effects of the reforms, however, are more difficult to anticipate. It is questionable whether piecemeal decentralization of managerial power can solve the conflict created by attempting to retain centralization in planning and managing the economy while fostering limited "democratization" of the economy (the granting of more independence to lower level officials). The current aim in the countries of the Soviet Bloc, and in Yugoslavia, is to make the two concepts mutually compatible.

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