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Nº 1

Economic Intelligence Report

RECENT DEVELOPMENTS  
IN THE ADMINISTRATION OF DOMESTIC TRADE  
IN THE USSR



CIA/RR ER 61-20

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CENTRAL INTELLIGENCE AGENCY  
Office of Research and Reports

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## C-O-N-F-I-D-E-N-T-I-A-L

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RECENT DEVELOPMENTS  
IN THE ADMINISTRATION OF DOMESTIC TRADE  
IN THE USSR\*

Summary and Conclusions

The system for distributing consumer goods in the USSR has long been underdeveloped and inefficient, suffering seriously from unwieldy organization, inadequate investment, and shortages of facilities and equipment. Available goods have been unevenly distributed among retail outlets, and the prevalent retail techniques have been extremely primitive. Scarcities and gluts have been common. Coordinated action by production, wholesale, and retail organizations has been rare.

Since 1953 the Soviet regime has devoted much more attention than in the past to the solution of domestic trade problems. Although changes effected between 1953 and early 1955 resulted in greater concentration of wholesale operations under the Ministry of Trade, USSR, and in increased republic and local control over retail trade, the distribution system continued to function unsatisfactorily, and efforts at reform were again intensified in 1956. Changes instituted since then have been intended to streamline the administrative apparatus, to decentralize decision-making, to bring about a more balanced distribution of available goods, and to bring supply into closer alignment with demand. Efforts also have been made to improve retailing techniques, expand trade facilities, and increase the supply of modern trade equipment.

Organizational changes made during 1956-58 primarily affected the state trade system. Responsibilities and functions of the Ministry of Trade, USSR, were gradually shifted to other bodies, and in November 1958 that ministry was abolished. Republic ministries of trade were made responsible for the organization and conduct of Soviet domestic trade, and the Chief Directorate for Interrepublic Deliveries of Consumer Goods was created in Gosplan, USSR, to coordinate trade among the republics.

The procedures for planning domestic trade, for allocating consumer goods, and for setting prices were simplified considerably. Gosplan, USSR; republic gosplans; and the republic ministries of trade now collaborate to plan the total retail volume in accordance with general

\* The estimates and conclusions in this report represent the best judgment of this Office as of 1 March 1961.

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policies of the Council of Ministers, USSR, but the formulation of plan details is left to republic ministries of trade and organizations subordinate to them. The number of centrally allocated commodities has been sharply reduced, and the allocation procedure has been revised to increase the authority of officials at the republic level over the distribution of these goods within the various republics. Gosplan, USSR, has succeeded the Ministry of Trade, USSR, as the agency responsible for allocating important goods among the republics. Before 1957, virtually all prices in state and cooperative trade were established by authorities at the union level, but in that year republic ministries of trade were given a greater voice in pricing, and by 1958 republic officials controlled the prices of goods comprising 45 percent of retail volume.

The administration of workers' supply divisions, which conduct about one-sixth of the total state and cooperative retail trade, was necessarily revised because of the transfer in 1957 of most production enterprises from economic ministries to councils of national economy (sov-narkhozy). Most workers' supply divisions remained with the production enterprises and are now administered by the councils of national economy, but some were turned over to local trade officials to be operated as part of the trade ministry system, and others were liquidated.

Few changes have been made in the administration of the consumers' cooperative system and the collective farm markets. The former in 1959 accounted for nearly one-third and the latter for about one-twentieth of the total retail trade. Republic ministries of trade apparently have inherited from the Ministry of Trade, USSR, most of the responsibility for integrating cooperative and collective farm retail activities with state trade.

Intensified efforts to expand and modernize the physical facilities of domestic trade and to introduce progressive retailing techniques complemented the recent organizational adjustments. In a decree issued in August 1960 the already ambitious goals for the construction of trade facilities during the remainder of the period of the Seven Year Plan (1959-65) were raised sharply.

Improvement of trade organization, modernization of retailing methods, and expansion of the trade network are a continuing imperative because of the rapid growth in retail turnover. The volume of sales (in constant prices) in state and cooperative trade grew at an average annual rate of 11-1/2 percent during the 1950's, and the increase in 1960 was about 11 percent. The series of trade reforms begun in 1956 apparently has succeeded in achieving smoother operations and a higher degree of response to local needs. The authority to make most decisions has been delegated to republic and local officials. Retail organizations

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have been put in closer contact with producers, and both wholesalers and retailers now answer to republic ministries of trade. Although the Soviet trade system has been improved significantly by these changes, continuing rapid growth of the volume of sales probably will necessitate still more reforms.

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## C-O-N-F-I-D-E-N-T-I-A-L

I. Introduction

Production of consumer goods in the USSR has grown much more slowly than production of producer goods and military equipment, and the system for distributing consumer goods has been poorly developed. With relatively little stress placed on consumer satisfaction, domestic trade has held a low priority in the allocation of investment funds and personnel. The trade system has been plagued not only by shortages of facilities, equipment, and quality merchandise but also by administrative inefficiencies. Persistent organizational shortcomings have contributed greatly to the chronic inefficiency of the domestic trade system, and until recently the Soviet regime made little effort to eliminate these shortcomings.

Reluctance to invest in trade led to an increasing shortage of stores, dining enterprises, and other facilities during the early 1950's. Between 1950 and the close of 1957, new neighborhoods and suburbs arose, the "new lands" were settled, industrial communities east of the Ural Mountains grew rapidly, and turnover in the state and cooperative retail trade systems increased 134 percent, 1/\* yet the number of stores and public dining enterprises grew only 27 percent. 2/ The number of persons employed in state and cooperative retail trade increased only 36 percent from 1950 to 1957, 3/ and more efficient retailing methods were introduced on a very small scale. Although general warehouse space increased more than 60 percent from 1950 to the beginning of 1957, 4/ retail turnover and inventories grew much faster. Lack of cold storage facilities was a major handicap to state and cooperative trade in meats, fruits, and vegetables. Cash registers and other types of equipment were in short supply. Because of the complexity of the Soviet organization of trade as well as population movements, available trade facilities were poorly distributed. Duplicate wholesale bases existed within small cities, and duplicate stores and dining enterprises could even be found operating side by side. 5/

Because of cumbersome retailing methods, most stores operated very inefficiently. Customers were often required to wait in three queues -- one for selecting an item, one for purchasing a receipt, and one for exchanging the receipt for the item -- for each purchase. Many goods were kept in closed cases, displays were unimaginative, and perishables were often not refrigerated. Largely because of a severe shortage of paper and paper products, many foodstuffs were not packaged: such commodities as flour, macaroni, groats, vinegar, syrup, and milk were weighed or measured individually for each purchaser, and frequently customers were required to furnish their own containers for these products. 6/

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Available goods were erratically distributed among retail organizations. Central authorities allocated important commodities among political subdivisions and trade systems in proportions that were sometimes poorly balanced. Trade organizations directly subordinate to the Ministry of Trade, USSR, were often unduly favored. Wholesale organizations violated plans in making deliveries. Retail organizations received goods in undesired amounts (some were often over-supplied while others were short) and in irrational size, style, and color assortments. Republic and local officials were too often slow to act to correct imbalances in deliveries. The distribution of seasonal goods and perishable foods was especially faulty. In the "new lands," many basic commodities were chronically in short supply, and sometimes vodka seemed to be the only commodity supplied to these areas in adequate amounts.

A new symptom of the inefficiency of the Soviet trade system appeared in about 1955, when over-all inventories of bicycles, time-pieces, radios, cameras, some textile products, and a variety of other goods began mounting at unplanned and undesired rates. This rapid accumulation of inventories reflected imbalances between supply and demand at a time when the degree of repressed inflation was being reduced. The accumulation also indicated that as real incomes increased, consumers were displaying a greater amount of selectivity and a growing reluctance to purchase obsolete or substandard merchandise. Retail organizations preferred to hold overstocked goods rather than to incur bookkeeping losses by selling such goods at reduced prices. In spite of numerous criticisms in the press, Soviet authorities did not take effective action to arrest the growth of inventories.

Some efforts to reform the trade system were made in 1953, in 1954, and early in 1955. Before that period, production ministries had performed many wholesale activities, and chief directorates of the Ministry of Trade, USSR, had engaged in both wholesale and retail trade on a large scale. In order to consolidate authority over wholesale trade and achieve closer control over the goods being fed into the trade system, the Ministry of Trade absorbed most wholesale operations of the production ministries. On the other hand, many retail and wholesale-retail organizations were transferred from union to republic and local subordination, a move calculated to make retail trade more responsive to local needs, to localize decision-making on minor matters, and to reduce administrative duplication. At the same time, a number of retail trade and public dining organizations that had been directly subordinate to republic ministries of trade were transferred to local executive committees. 7/ In the sparsely settled Uzbek and Kazakh SSR's, however, the administrative structure was tightened by the transfer of trading and dining organizations from local to republic subordination. 8/

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These reforms brought new problems. For example, subordination of wholesale organizations to the Ministry of Trade, USSR, interposed a barrier between retail organizations, which were under republic and local authorities, and factories, which were operated by production ministries. The resultant insulation of manufacturers from retailers reduced the influence of the latter on product design and quality. The Soviet distribution system continued to function very imperfectly, and further reforms were obviously necessary. Major changes were accomplished during 1956-58, a time of general economic reorganization.

## II. Recent Changes in the Organization of Trade

### A. Situation in 1956

Under the Council of Ministers the Ministry of Trade, USSR, in 1956 held ultimate responsibility for the conduct of all Soviet internal trade in consumer goods. It passed judgment on plan proposals, allocated important goods, and exercised general supervision over all trade. The Ministry of Trade directly controlled only a part of the trade organizations, however, the remainder being administered by various ministries or by cooperative associations. In addition to these "organized" (state and cooperative) trade systems, there were collective farm (kolkhoz) markets, which played a major role in the distribution of agricultural products.

The principal recent changes in the over-all organization of Soviet domestic trade have been the transfer of functions from the Ministry of Trade, USSR, to other bodies, notably to republic ministries of trade and to Gosplan, USSR, and the abolition of the Ministry of Trade, USSR. These changes are examined below in greater detail.

### B. State Trade System

#### 1. Trade Ministry System

The trade reforms that began in 1956 and continued through 1958 primarily affected the state trade system, particularly that part of the system which was directly controlled by ministries of trade. Until 1958 the trade ministry system was organized at three basic levels -- union, republic, and local (see the chart, Figure 1\*). At the peak of the pyramid of trade organizations was the Ministry of Trade, USSR, which not only maintained general supervision over the conduct and development of all domestic trade but also engaged in wholesale trade and, to a relatively minor extent, in retail trade through its chief directorates. The Ministry's wholesaling functions

\* Following p. 8.

## C-O-N-F-I-D-E-N-T-I-A-L

were carried out by about a dozen chief directorates organized to deal in certain product lines or to serve special markets -- for example, the Chief Directorates of Refrigeration and Wholesale Trade in Meat and Butter; Wholesale Trade in Clothing; Wholesale Trade in Sugar, Confectionery Products, Canned Goods, Tobacco Products, and Other Groceries; and Trade Enterprises for the Military Services. (The structure of the Ministry of Trade, USSR, is shown in the chart, Figure 2.\*)

The ministries of trade at the republic level were dually subordinate -- to the Ministry of Trade, USSR, and to the councils of ministers of the republics. These ministries had chief directorates engaging in retail and wholesale-retail trade. Representative of such chief directorates were those conducting trade in manufactured goods; in bread and baked goods; in furniture; in household goods; in haberdashery and knitwear; and in textiles, sewn goods, and millinery. The Ministry of Trade, RSFSR, had a chief directorate dealing with trade in the Far North and an office for mail order trade. Besides carrying on extensive trade operations, republic ministries of trade supervised local trade organizations through ministries of trade of autonomous republics and through trade departments in oblast, kray, and city executive committees.

Most retail enterprises (stores and dining enterprises) in the trade ministry system were managed by organizations known as torgs, which were organized by product lines and by areas served. Operating according to the principle of economic accountability (khozraschet), torgs were directly subordinate to the trade departments of kray, oblast, or city executive committees; ministries of trade of autonomous republics; or -- in the case of republics not having oblast divisions -- ministries of trade of republics.

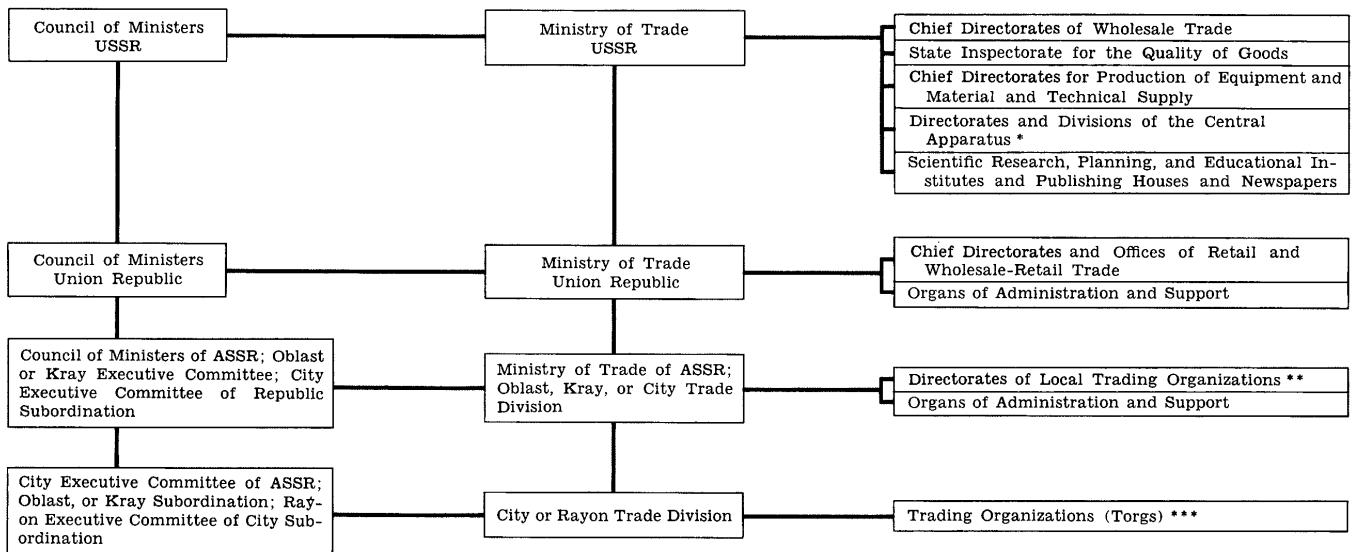
Beginning in 1956, the duties of the Ministry of Trade, USSR, were gradually reduced. Most retail enterprises of union subordination were gradually transferred to republic and local trade authorities. In early 1957 a large part of the ministry's authority to fix prices was delegated to republic councils of ministers, and by the close of 1957 the Ministry of Trade also had relinquished most of its planning functions. Thus for 1958 the Council of Ministers, USSR, approved only the gross retail turnover plan by republic for the entire country and directly allocated only about 45 important goods. Detailed planning and distribution were accomplished at republic and lower levels. State trade and commodity inspectorates, which are important agencies of control, were turned over to republic ministries of trade.

\* Following p. 8.

Figure 1

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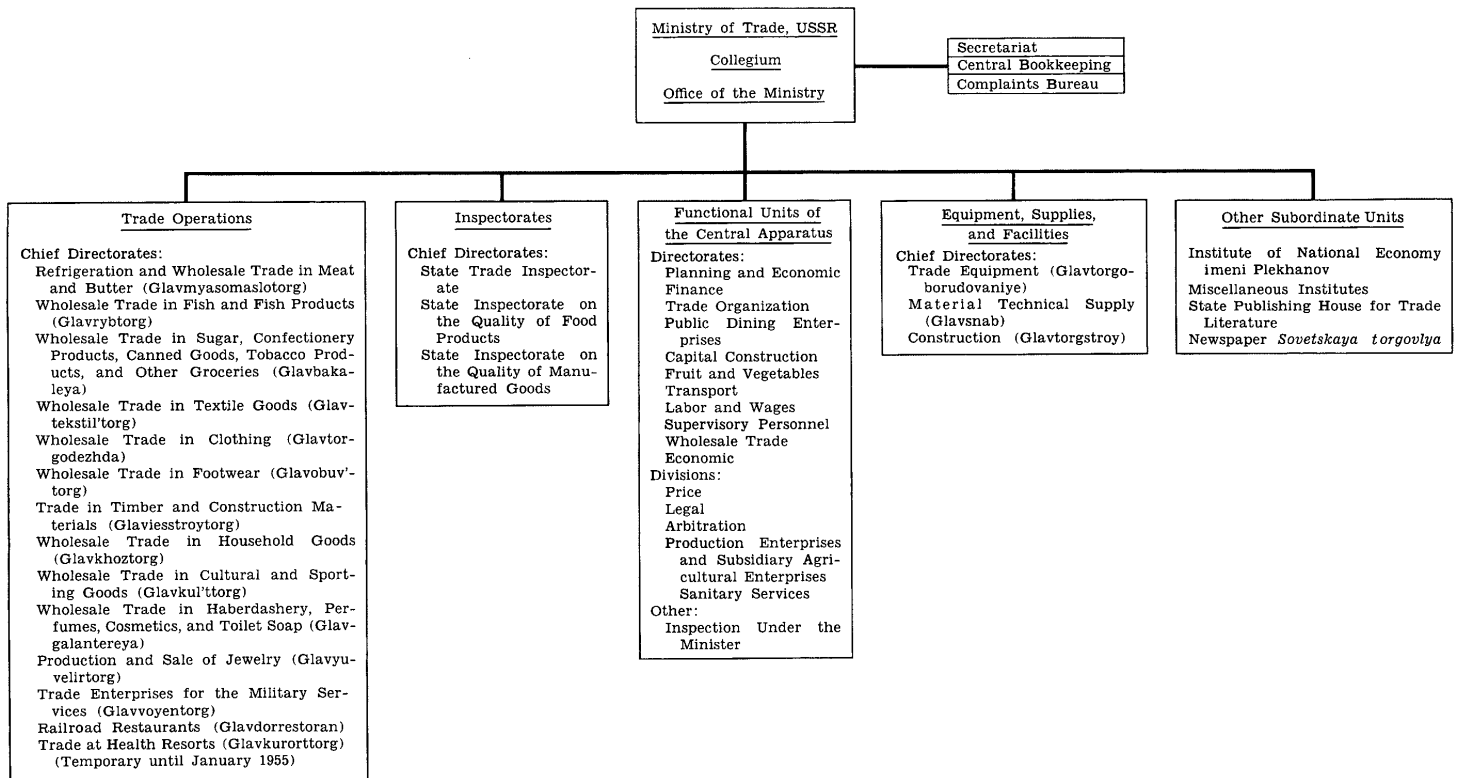
### USSR: ORGANIZATION OF THE TRADE MINISTRY SYSTEM JANUARY 1956



\* These components are organized along functional lines to accomplish such tasks as planning, pricing, and bookkeeping.  
\*\* In oblasts and cities having no more than seven local trading organizations (torgs), these components are managed directly by the trade divisions.  
\*\*\* According to their product lines, trading organizations are classified as miscellaneous, food, manufactured goods, or specialized. Specialized torgs deal in bread, fruit and vegetables, cultural goods, furniture, and petroleum products.

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USSR: ORGANIZATION OF THE MINISTRY OF TRADE  
OCTOBER 1954



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Late in 1958 the Ministry of Trade, USSR, was left with little more than the management of wholesale operations, although it did continue to conduct retail trade in jewelry and lumber. On 28 November 1958 the Presidium of the Supreme Soviet announced the abolition of this ministry. 9/ The ministry's wholesale operations were transferred to republic ministries of trade, and the Chief Directorate for Interrepublic Deliveries of Consumer Goods in Gosplan, USSR, was given responsibility for coordinating trade among the 15 republics.

With the transfer of functions to republic ministries of trade, certain organizational adjustments were required. The chief task for the republic ministries was the creation of new chief directorates around the nuclei provided by the remnants of the union chief directorates. In some instances, however, republic ministers of trade also accomplished significant consolidations. In the RSFSR, for example, the Manufactured Goods Trade Organization (Rospromptorg) and the Sporting Goods Trade Organization (Rossporttorg) were abolished, and their functions were transferred to "suitable republic wholesale offices." Important retail organizations were transferred from republic to local subordination. The chart, Figure 3,\* shows the structure of the Ministry of Trade, RSFSR, after the adjustments which followed the demise of the union ministry. On the final day of November 1958 the last Minister of Trade, USSR, D.V. Pavlov, was appointed Minister of Trade, RSFSR, an appointment that gave testimony to the elevated status of the republic ministries of trade. 10/ The trade ministry system as it is currently organized is shown in the chart, Figure 4.\*

## 2. Other State Trade Systems

A sizable share of state retail trade is conducted by organizations outside the trade ministry system. The most important of these organizations are the workers' supply divisions (ORS's), which are directly attached to enterprises (principally industrial) to operate stores and dining facilities serving the employees of these enterprises. Each workers' supply division operates as an independent branch of an enterprise under a deputy director. This internal distribution system has been most important in supplying favored employees in wartime, in attracting new employees to priority industries, and in serving employees at new and remote industrial or construction sites. Sales of workers' supply divisions comprised more than 18 percent of total state and cooperative retail sales in 1955. 11/

\* Following p. 10.

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Workers' supply operations were supervised by chief directorates of workers' supply (glavursy) under the economic ministries until mid-1957, when the management of most industrial enterprises was transferred to regional councils of national economy. Workers' supply operations of industrial enterprises are now directed by these councils, sometimes through a single directorate of workers' supply but more often indirectly through a multiplicity of supply divisions subordinate to branch directorates of the council. A continuing consolidation of these divisions seems probable. To eliminate duplication, workers' supply facilities have been turned over to the trade departments of local executive committees in at least 30 cities to be operated as part of the trade ministry system, and many small supply divisions have been abolished. 12/

Some goods are sold to the general public by organizations subordinate to ministries other than the ministries of trade. Drug products are distributed by the Ministry of Health, newspapers and magazines by the Ministry of Communications, and books by the Ministry of Culture. Under the republic ministries of local industry are stores selling mixed assortments of goods produced by local industrial enterprises. Trade by such organizations, which accounted for about 3 percent of total state and cooperative sales in 1955, was not significantly affected by the reorganizations of the late 1950's. 13/

As late as May 1957, 35 economic ministries performed some wholesale functions. 14/ Although some of these functions may have been transferred to the trade ministry system since then, it is likely that most of them are still performed by industrial enterprises under the supervision of councils of national economy.

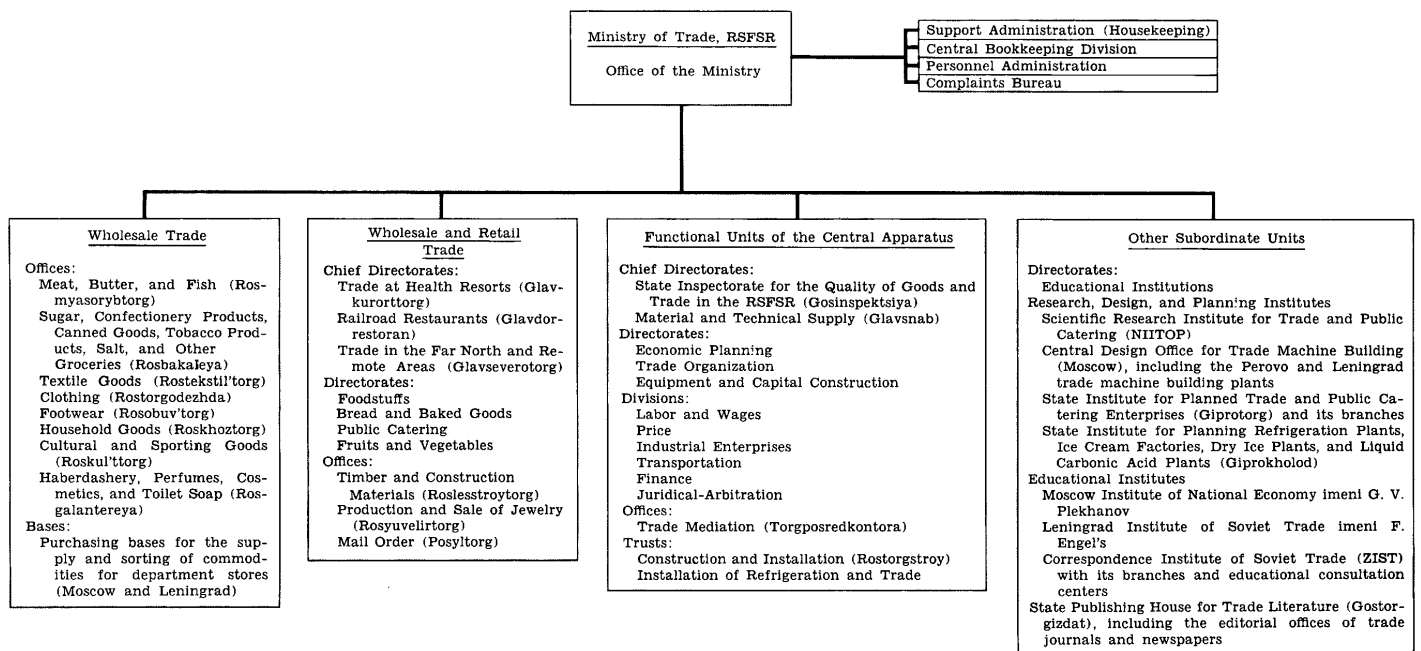
C. Cooperative Trade System

Nearly one-third of organized domestic trade in the USSR is conducted not by state organizations but by consumers' cooperatives that hold primary responsibility for the distribution of consumer goods in rural areas and also conduct some trade in cities. Consumers' cooperative enterprises are operated by local cooperative societies, which are united by a hierarchy of federations organized within governmental subdivisions. The federation at the union level, the Central Union of Consumers' Cooperatives, oversees all consumers' cooperative operations. (The consumers' cooperative system is outlined in the chart, Figure 5.\*)

Federations of cooperative societies supervise the work of their members, organize the procurement of agricultural products for the

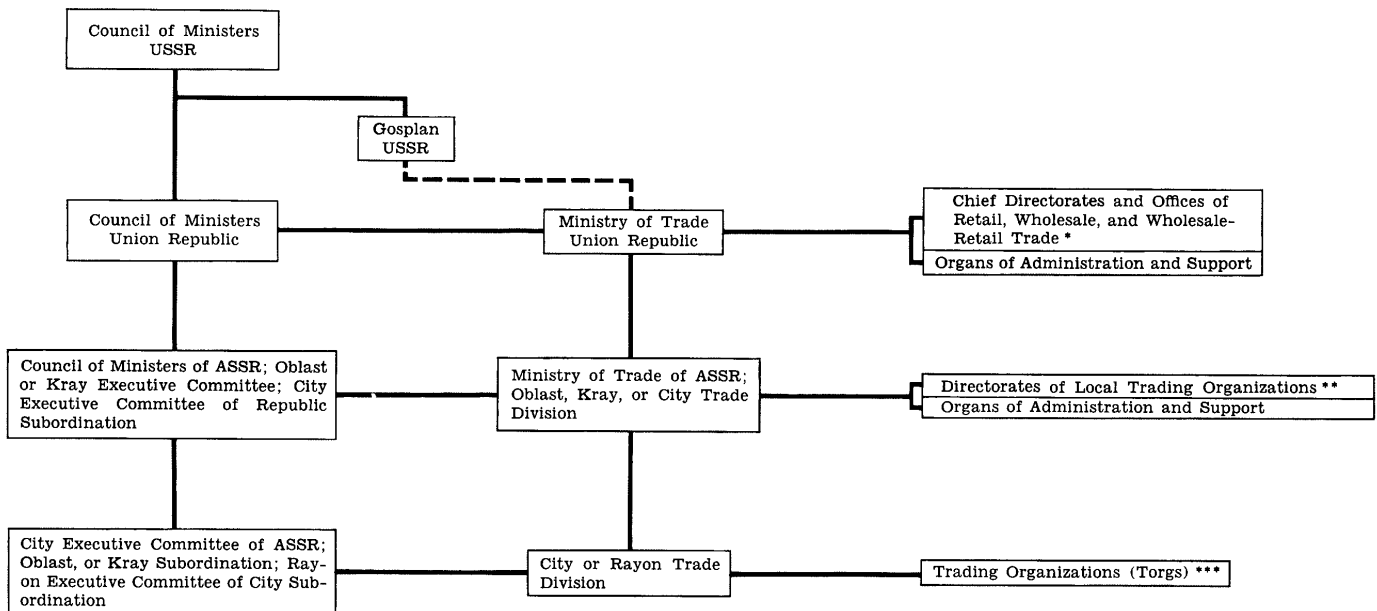
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RFSFR: ORGANIZATION OF THE MINISTRY OF TRADE  
JANUARY 1959





### USSR: ORGANIZATION OF THE TRADE MINISTRY SYSTEM JANUARY 1961

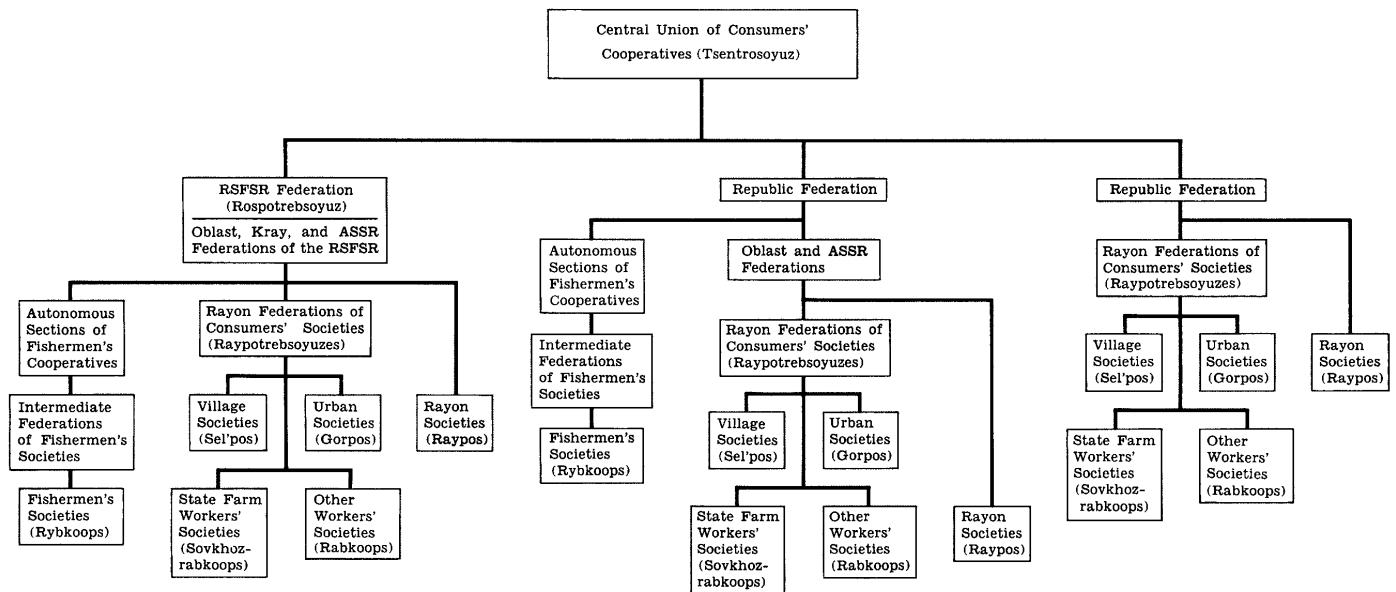


\* These components have increased in size and number to absorb functions formerly performed by the Ministry of Trade, USSR, although some have been eliminated and their functions transferred to local or other republic bodies.

\*\* In oblast and cities having no more than seven local trading organizations (torgs), these components are managed directly by the trade divisions.

\*\*\* According to their product lines, trading organizations are classified as miscellaneous, food, manufactured goods, or specialized. Specialized torgs deal in bread, fruit and vegetables, cultural goods, furniture, and petroleum products.

### USSR: ORGANIZATION OF THE CONSUMERS' COOPERATIVE SYSTEM JANUARY 1961



## C-O-N-F-I-D-E-N-T-I-A-L

state,\* and conduct wholesale operations. Rayon federations often operate large retail enterprises in the rayon centers. In the past the task of coordinating consumers' cooperative operations with other trade activities was mainly performed by the Ministry of Trade, USSR. Since this ministry was eliminated, coordination apparently has been accomplished primarily by republic ministries of trade.

Trade by consumers' cooperatives has increased more rapidly than state trade in recent years, largely because of the expansion of cooperative activity in urban centers. Cooperatives are selling on commission a growing volume of farm products consigned to them by individuals and collective farms and also are selling an expanding amount of farm produce purchased outright at or below state procurement prices. Commodities that have been purchased by the cooperatives are sold at state prices, and those being sold on commission are sold at prices that are slightly higher than state prices but still below collective farm market prices. With this price advantage and strong impetus from the government, commission trade and purchase trade, begun in 1953 and 1959, respectively, are seriously encroaching on the operations of collective farm markets.

The period of trade reorganization has seen no great changes in the organizational structure of consumers' cooperatives. Trade ministry spokesmen have urged that cooperative wholesale activities be absorbed by the trade ministry system, but there is nothing to indicate that this advice will be heeded. Although the two systems do operate some duplicate wholesale facilities, state operations are usually specialized and are concentrated in the cities, whereas cooperative facilities are usually of a general nature and are widely dispersed to serve rural areas. The current Seven Year Plan (1959-65) calls for further expansion of wholesale trade by the consumers' cooperatives.

A small part of cooperative trade also was conducted by producers' cooperatives, which marketed a large share of their products through their own retail outlets. These organizations were concentrated in production of clothing and leather goods; in carpentry; and in such service trades as household repair work, tailoring, and shoe mending. Their retail sales amounted to less than 2 percent of the total for all state and cooperative organizations in 1955 and probably showed an absolute decline thereafter. 16/

\* The consumers' cooperative system procured agricultural commodities worth 26.4 billion rubles in 1958, about one-fourth of the total procurement by all organizations. 15/ (Ruble values in this report are given in current rubles and may be converted to US dollars at a rate of exchange of 4 rubles to US \$1. This rate does not necessarily reflect the value of rubles in terms of dollars.)

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In 1960, all producers' cooperative enterprises were reorganized as state enterprises under the direction of republic ministries or chief directorates of local industry or under the councils of national economy. 17/ This merging of directorates should reduce conflicts and duplications among local enterprises, but because of the small volume of trade conducted by producers' cooperatives, such changes will be of little significance in the general trade picture.

D. Collective Farm Markets

In 1959, about 5 percent of all retail trade was conducted in collective farm markets, where collective farm produce remaining after deliveries to the state and produce from collective farmers' private plots and from other private gardens and farms may be sold. Because such trade is concentrated in perishable foodstuffs -- meat, fish, dairy products, eggs, fruits, and vegetables -- it is of greater importance than its small share of the total retail trade would indicate. Collective farm markets are regulated by Soviet trade authorities. A Soviet commentator, writing before the abolition of the Ministry of Trade, USSR, states:

The administration of kolkhoz markets is placed on the oblast, city, and rayon trade divisions. These divisions are responsible for the organization and improvement of kolkhoz trade, increasing the delivery of agricultural products to the markets, and planning and constructing new markets. Oblast and city trade divisions issue instructions regulating market trade. 18/

The duties of supervising collective farm market activities formerly performed by the Ministry of Trade, USSR, have devolved on republic ministries of trade operating, of course, within policies approved by republic and union councils of ministers. As was previously indicated, recent policy has brought about a contraction of the share of collective farm markets in total retail sales. From 1950 to 1959, while state and cooperative sales volume in constant prices rose 168 percent, collective farm market volume fell about 22 percent. 19/ During this period the share of collective farm markets in total sales fell from 12 percent to 5 percent.\* 20/

\* This share is somewhat understated because Soviet statistics do not include collective farm market sales in rural villages. These sales were estimated to be 25 percent of total collective farm market sales in 1955.

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### III. Recent Changes in Administrative Procedures

#### A. Planning and Allocation

Before 1957 the Ministry of Trade, USSR, and Gosplan, USSR, were responsible for the preparation of plans for the conduct and development of state and cooperative trade and for the operation of collective farm markets. Trade officials of production ministries and representatives of the consumer cooperatives participated in planning for their respective systems. Plan formulation required a large amount of correspondence between, and duplicate effort by, trade and Gosplan authorities. Planning procedures at the national level were considerably simplified with the transfer of planning functions from the Ministry of Trade, USSR, to Gosplan, USSR, and to the trade ministries in the republics in 1957 and the elimination of the Ministry of Trade, USSR, in 1958.

Gosplan, USSR, is the only body at the union level concerned with the preparation of short-term trade plans. Since April 1960 the State Scientific-Economic Council (Goskonomsovet) has been charged with the development of long-term plans. The Trade Turnover Division of Gosplan, USSR, subject to approval by the Council of Ministers, USSR, plans the total volume of retail trade turnover, expressed in rubles, for the entire country. This total figure is broken down by republic, largely on the basis of requests submitted to Gosplan by republic officials.

At the enterprise and torg levels, plan formulation procedures have changed little, but councils of national economy now participate in the development of plans for workers' supply organizations attached to enterprises under their direction, and republic ministries of trade have more authority than in the past in planning retail turnover, commodity stocks, and turnover expenditures. In the RSFSR the Ministry of Trade develops a republic plan, which conforms to the all-union plan and is broken into totals for divisions at the oblast level, and presents this plan to the Council of Ministers, RSFSR, for approval. Sales plans for state and cooperative stores and public dining enterprises are lumped together. Only plans for production or processing by public dining enterprises must gain specific approval at this level. In divisions at the oblast level, plans are developed for each trade system and must be approved by the executive committees of the oblasts and krays and by the councils of ministers of the autonomous republics. 21/

Authority to formulate plans is more highly centralized in the smaller republics than in the RSFSR. In the Ukraine the Council of Ministers of the republic approves turnover plans for each oblast and

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each trade system, with sales by stores, public dining enterprises, and cooperative commission enterprises indicated separately. The Council of Ministers of Kazakh SSR also passes judgment on detailed trade plans, and councils of ministers of the remaining republics presumably do likewise. 22/

Until 1957, available stocks of the most important goods were allocated among trade systems and republics by the Ministry of Trade, USSR, in accordance with the trade plans. These "allocated" or "funded" commodities were allotted directly to organizations of union subordination without intervention by republic officials, 23/ and republic ministries of trade determined the distribution of such commodities within -- but not among -- the separate trade systems of republic and local subordination. In 1954, "allocated" goods constituted more than 60 percent of the volume of marketable commodity stocks, 24/ but 2 years later the number of consumer commodities "allocated by centralized planning" was reduced from 300 to 150. 25/ The distribution of less important goods -- "regulated" or "controlled" commodities -- was determined by agreements between supplying ministries and the Ministry of Trade, USSR, or by government decrees. Most of the remaining "unplanned," or "nonallocated," commodities were products of local industry, producers' cooperatives, trading organizations, or other relatively small-scale units. These commodities were distributed in accordance with agreements between sellers and buyers or were sold by the organizations that produced them. 26/ Of course, organizations producing "unplanned" commodities did not operate independently but rather were managed and guided by ministries or chief directorates of local industry, by councils of producers' cooperatives, and by various other bodies. Such organizations had to obtain employees and materials, pay wages, and distribute products within the framework of the general economic plans.

The procedure for allocating goods was greatly revised in 1957. The Trade Turnover Division of Gosplan, USSR, now specifies the quantities of about 45 important goods -- including expensive household durables as well as staple items of food and clothing -- which will be centrally allocated. The Chief Directorate for Interrepublic Deliveries of Consumer Goods of Gosplan, USSR, considers requests from and the needs of the 15 republics and the cities of Moscow and Leningrad and does the actual allocating of these goods. Allocations are made only among republics and to the two largest cities without distinctions among trade systems or between stores and public dining enterprises. 27/

Republic councils of ministers are allowed a large amount of discretion in formulating the distribution patterns for goods allocated to them. In the RSFSR, proposals for the allocation of flour, groats, macaroni products, sugar, cotton and woolen fabrics, ready-to-wear

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clothing, and footwear among divisions at the oblast level are developed by the republic Gosplan and Ministry of Trade but must be approved by the Council of Ministers, RSFSR. The distribution among oblasts of 10 other food products and 30 types of manufactured goods is determined by the republic Ministry of Trade. Eleven additional manufactured items are allocated to urban trade organizations of oblast divisions by the republic Ministry of Trade and to rural organizations by the Union of Consumers' Cooperatives, RSFSR. Within the RSFSR the executive committees of the cities of Moscow and Leningrad and their trade departments apparently enjoy a great deal of independence. It is probable that in the 14 smaller republics the authority for allocating important commodities is even more highly concentrated at the republic level than in the RSFSR.

The distribution of less important goods is regulated by local production officials in the factories and councils of national economy and by trade officials in the enterprises, torgs, cooperative societies, wholesale organizations, and trade departments of local governing bodies. Regional and national trade fairs are becoming more important in the distribution of those goods of secondary importance that are not universally produced.

Since 1957, responsibility for the determination of consumer goods assortments and of details of design and quality has been delegated to factory managers and local councils of national economy working in conjunction with trade representatives. Goods are ordered by wholesale and retail organizations on a contract basis, with details of assortment and delivery specified in the contracts. Progressively greater emphasis is being placed on businesslike relations between organizations, including strict observance of contract terms. In a trade decree issued in August 1960, trade organizations were forbidden to accept merchandise that does not meet the standards specified in contracts. If universally observed, this precept would bring tremendous pressure to bear on producers to improve the quality of their output and their delivery procedures. Similar admonitions in the past generally have been ignored, and only time will reveal the impact of this recent order. Direct contracting between production enterprises and the larger retailers is becoming more common, but it is often restricted to firms within one republic, oblast, or even city.

#### B. Determination of Prices

Before the reorganization, union authorities -- the Council of Ministers, Gosplan, and the ministries -- wielded almost unlimited authority over prices in state and cooperative trade. Although some of this authority has been transferred to republic councils of

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ministers, organs at the union level still determine general price policy and regulate most agricultural procurement prices and the prices of many important foods and fabricated consumer goods. Since 1958, republic councils of ministers have had the right to approve prices -- set within limits determined by Gosplan -- of goods comprising approximately 45 percent of retail volume. The right to set prices on products of local industry and on certain foodstuffs and manufactured goods is delegated by republic councils of ministers to gosplans or to various local authorities. 28/ Oblast and city trade administrations, for example, fix prices on vegetables and fruit. 29/ Early in 1960, retail organizations of the RSFSR were authorized to create a fund to absorb accounting losses caused by price reductions on slow-moving merchandise. This device, presumably in use in the other republics, is effective in reducing stocks of overpriced goods, but many managers prefer to hold such merchandise in anticipation of regular price reductions by state authorities. 30/

IV. Recent Changes in Retailing Facilities and MethodsA. Facilities

Soviet authorities have continued to expand trade facilities at a relatively slow rate (see Table 1\*). The number of stores and dining enterprises grew only about 14 percent between the close of 1955 and the close of 1959, although retail volume in 1959 was 42 percent above that in 1955. 31/ At the end of 1955, 43 percent of state stores and 7 percent of cooperative stores dealing in perishable foods were equipped with cold storage facilities, and 4 years later these percentages had been raised to only 56 and 13, respectively. 32/

In the trade decree of August 1960, goals for the expansion of trade facilities during 1961-65 were raised. The new 5-year target includes 105,000 state and cooperative stores and 9 million square meters of new general warehouse space. 33/ The former figure equals that originally planned for the entire period 1959-65, and the latter exceeds its counterpart in the Seven Year Plan by about 20 percent. Stores and dining enterprises are to be established on the ground floors of new apartment buildings and in separate buildings and shopping centers. An important incentive for the construction of stores and dining enterprises is the provision by this decree that construction organizations are not to be paid bonuses for fulfillment or overfulfillment of housing construction goals until stores and dining enterprises have been commissioned in or near the new apartment buildings. Achievement of the investment and construction goals specified in the decree will mean considerable overfulfillment of the Seven Year Plan for trade construction, even though the goals for 1959 and 1960 were not met.

\* Table 1 follows on p. 17.



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Table 1

Number of Retail Stores and Restaurants  
in the USSR <sup>a/</sup>  
Selected Years, 1940-59, and 1959-65 Plan

Year	Thousand Units					
	Retail Stores <sup>b/</sup>			Restaurants		
	Total	Urban	Rural	Total	Urban	Rural
1940	307.1	90.7	216.4	87.6	59.2	28.4
1950	298.4	108.7	189.7	95.4	69.8	25.6
1955	352.5	134.7	217.8	118.1	83.1	35.0
1956	359.9	137.7	222.2	126.2	88.6	37.6
1957	370.3	146.0	224.3	128.7	93.0	35.7
1958	383.1	154.0	229.1	130.9	96.7	34.2
1959	397.3	162.3	235.0	137.5	102.1	35.4
1959-65 (Planned new construction)	105.0	N.A.	N.A.	64.3	45.3	19.0

a. End-of-year data. <sup>34/</sup>

b. Excluding stalls and booths (palatki). Stalls and booths amounted in 1959 to 100,100 in urban areas and 44,900 in rural areas.

#### B. Selling Procedures

Self-service and other progressive retailing methods have been introduced on too small a scale to relieve the growing pressure on retail facilities. <sup>35/</sup> By mid-1960, only 2,500 self-service grocery stores had been organized in the USSR. <sup>36/</sup> The principal obstacle to this innovation continues to be the scarcity of factory-packaged goods -- self-service stores are obliged to have their own packaging sections. Steps are being taken, however, to expand paper-producing and factory-packaging operations. Open and attractive display of merchandise, acceptance of payment at display counters, sale by sample, and home delivery are slowly becoming more common, and multiple queuing is on the wane. Installment selling has met with a high degree of popular approval and is spreading rapidly. The cash register is gradually replacing the abacus. In spite of these improvements, the best Soviet stores are 20 years behind most of those of the US, the average new

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store is even more primitive, and the great majority of Soviet retail stores continue to operate in a very crude manner. The pace of modernization is increasing, but the goal is distant.

V. Appraisal of the Reforms

The transfer of functions from the Ministry of Trade, USSR, to other bodies and the elimination of that ministry have resulted in the formation of a more streamlined administrative structure. Republic ministries of trade now make many decisions that formerly were referred to the Ministry of Trade, USSR. Thus decisions are now made more quickly and with more detailed knowledge of local or regional situations, particularly outside the RSFSR. Coordination of interrepublic operations apparently is being successfully accomplished by Gosplan, USSR. Planning procedures have been simplified by the elimination of the Ministry of Trade, USSR, but there is some duplication of effort by republic gosplans and ministries of trade. The responsibility for allocating important goods has been partly shifted to republic ministries of trade, and Soviet authorities foresee further shifts in this direction. The number of allocated consumer goods has been sharply reduced, and thus Soviet trade moves a bit more freely. Wholesale operations under the ministries of trade are no longer divided between organizations of union subordination and organizations of republic subordination. Nearly all wholesale and retail organizations in each republic are now under the authority of the republic ministry of trade, and their operations are more easily coordinated. Trade organizations under the republic ministries of trade have more direct contact with producing organizations, for the two are no longer separated by wholesale organizations of union subordination. The elimination of retail stores of union subordination apparently has led to a more balanced distribution of scarce commodities, for in the past these stores were often favored over stores of republic and local subordination.

The transfer of workers' supply enterprises to local trade authorities has resulted in the elimination of redundant facilities and administrative offices in a number of cities, but such transfers have been accomplished on only a small scale. Similar gains have been made since 1959 by shifting railroad dining enterprises from the Ministry of Trade, RSFSR, to authorities at the oblast level. 37/ Because such transfers reportedly have been successful, more probably will be made from time to time.

The brightest aspect of state and cooperative retail trade in recent years has been the increasing volume of turnover (see Tables 2 and 3\*). From 1950 through 1959, increases in state and cooperative sales

\* Tables 2 and 3 follow on p. 19.

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Table 2

State, Cooperative, and Collective Farm Market Retail Sales  
in the USSR a/  
Selected Years, 1940-60

Billion Current Rubles

<u>Year</u>	<u>Total Sales</u>	<u>State and Cooperative Sales</u>			<u>Collective Farm Market Sales b/</u>
		<u>Total</u>	<u>State</u>	<u>Cooperative</u>	
1940	204.2	175.1	128.1	47.0	29.1
1950	408.8	359.6	261.1	98.5	49.2
1955	549.7	501.9	347.3	154.6	47.8
1956	589.5	547.4	380.6	166.8	42.1
1957	664.6	625.0	432.9	192.1	39.6
1958	717.7	677.2	467.9	209.3	40.5
1959	754.7	719.2	498.1	221.1	35.5
1960	N.A.	784.5	N.A.	N.A.	N.A.

a. 38/

b. Excluding sales in rural villages, which in 1955 amounted to 25 percent of the total collective farm market sales.

Table 3

Indexes of the Volume of Retail Sales  
in the USSR a/  
Selected Years, 1940-60

Indexes in Constant Prices (1950 = 100)

<u>Year</u>	<u>State and Cooperative Sales</u>			<u>Collective Farm Market Sales</u>
	<u>Total</u>	<u>Food</u>	<u>Nonfood Items</u>	
1940	91	106	71	62
1950	100	100	100	100
1955	189	189	188	94
1956	205	203	207	92
1957	234	229	241	89
1958	248	240	257	88
1959	268	258	279	78
1960	297	N.A.	N.A.	N.A.

a. 39/

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(in constant prices) averaged more than 11.5 percent per year for a total growth of nearly 170 percent.\* 41/ During the Seven Year Plan period (1959-65), state and cooperative sales are to increase by 62 to 65 percent, an average annual rate of 7.1 to 7.4 percent. The growth of sales in 1959 above those in 1958 was 8 percent, 42/ and sales during 1960 were about 11 percent above those in 1959. 43/ Continued increases of such magnitude will result in substantial overfulfillment of 1965 goals.

This rapidly mounting volume of sales makes imperative the tasks of improving the administrative structure and selling methods and of expanding the network of facilities, for the trade system must be constantly improved just to keep pace with growing turnover. In at least one struggle, however -- that against accumulation of inventories -- Soviet trade is losing ground. Inventories of nonfood goods stood at 102,752 million rubles at the close of 1956 and were described as excessive. During the succeeding 3 years, nonfood inventories rose more than 40 percent in spite of increasing emphasis on installment selling, redistribution among retail organizations, and price cutting. 44/ The volume of nonfood sales increased only 35 percent during this interval. 45/ Excessive accumulation of inventories will not be arrested until trade organizations become more accurate at gauging consumer demand and more liberal in reducing prices on slowly moving merchandise and until producers make shipments conform more closely to orders from trade organizations.

In general, the recent organizational changes in Soviet trade have been steps in the right direction, and Soviet trade operations should continue to improve. Minor refinements and changes in organization will be introduced from time to time, but solutions to many problems are elusive and painful. The organization of trade will remain in flux during the foreseeable future as new problems are generated and as old ones are aggravated by the swelling output of consumer goods.

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\* It should be noted, however, that a portion of the increase in state and cooperative sales was at the expense of collective farm market trade, which declined 22 percent during 1950-59 and now accounts for about one-twentieth of the total sales volume. 40/

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