

APPROVED FOR RELEASE: 2007/02/09: CIA-RDP82-00850R000100050053-7

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JPRS L/8482

25 May 1979

TRANSLATIONS ON USSR ECONOMIC AFFAIRS
(FOUO 5/79)



USSR

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INCREASED INCENTIVES TO PROMOTE INNOVATION URGED

Moscow VOPROSY EKONOMIKI in Russian No 3, Mar 79 pp 13-20

[Article by V. Makarov (Novosibirsk): "Increasing Incentives for Innovations"]

[Text] One of the important directions of improving economic methods of operating a socialist economy is that of strengthening the role of cost-accounting relations in the interest of better satisfaction of the needs of society. This presupposes first of all the gradual overcoming of elements of formalism and of a certain "impunity" found in economic activity. In recent years, the literature has contained many proposals relating to these questions. Among these there may be selected: expansion of the rights of self-supporting units of the economy, elimination of net surplus of profit, increase of responsibility for the results of economic activity and others.

Of course, we do not mean the creation of an analog of the mechanism of "survival" of profitable and "ruin" of "unprofitable" enterprises. At the same time, it is necessary to eliminate a certain "easiness" in the attitude of certain directors toward expenditures of state funds. It is important to make use of all possibilities for obtaining a profit from growth of production efficiency. A change in the psychology of managers in this direction should be reinforced with appropriate state measures. For this reason there exist and will continue to exist mechanisms of redistribution of financial capital not directly related to economic efficiency. The problem is evidently to more clearly determine and provide a basis for these mechanisms, strengthening thereby objectivity of adopted decisions.

In the light of what has been said, the question arises as to what extent should processes of introduction of innovations be regulated by cost-accounting considerations. The practice of cost accounting on the whole so far has not stimulated the creation and introduction of innovations in production, while in a number of cases it does not always correctly orient toward the selection of measures for introduction from the point of view of their efficiency.

The situation, we believe, can be changed by the creation of a certain demand for innovations developed in production with the aid of state organs responsible for scientific-technical progress. In the future, innovations developed

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in production shall be called by us by that designation. They will be considered as a special kind of product produced by appropriate enterprises, and they will bear a price and be "used" and therefore will be paid for. Being paid for by appropriate state organs, this type of "product" (innovation) will be included in the volume of sale of an enterprise as a regular product. By way of explanation, let us cite an example (see table on next page). Let us assume that the development of an innovation results in enterprises going on to produce a new item (a machine tool).

It is assumed that both of the machine tools satisfy one and the same need and that demand for them is far from being saturated. Inasmuch as the price of the new machine tool is 15,000 rubles cheaper, it is economically more profitable for the user, which cannot be said of the producer. But if the enterprise were to receive an additional 1,500 rubles for each new machine tool sold, then the yearly profit would amount to 240,000 rubles, and the production of the new machine tool would be economically feasible. This additional sum (1,500 rubles) constitutes the price of the innovation. It is now paid for not by the user of the machine tool, but the user of the innovation (for example, the ministry). The new introduction can be such only for the given enterprise, but nevertheless it can have a price which in this case stimulates the expansion of the scale of use of the innovation which has already been sold to other enterprises.

The introduction of the concept "price of a developed innovation" results in our view in a certain uniformity in the compilation of plans for new equipment in the part of generalizing cost indicators in computations of the economic effectiveness of new equipment and so on. The price of developed innovations considered in a time frame applicable to an enterprise, association, sector and the national economy as a whole can characterize the level and rate of scientific-technical progress and applied to cost of outlays--their effectiveness as well. Planning of the volume of developed innovations costwise could turn out to be a convenient form of planning of the effect and results of scientific-technical progress in a generalized form. This proposal, we believe, should make it possible to look in a new way at a number of questions raised and considered in the course of a discussion on technical progress on the pages of a journal.¹

The insufficient economic interest of enterprises in the adoption of innovations is to be explained by a number of reasons. We shall mention the most important of them. Introduction of new equipment and technology, development of new products under existing cost accounting result as a rule in a temporary worsening of an enterprise's economic indicators. Work relating to the creation and introduction of new equipment diverts resources which could have been used in production. In most cases, prices of new products and new equipment are uneconomical both for the fabricator and for the user. The activity of an enterprise in the creation and introduction of innovations is connected as a rule with uncertain results and with risk. All this requires appropriate skills, a special psychological attitude on the part of workers and the allocation of additional capital. It would appear that the negative consequences

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Table

	1)	2)	3)	4)	5)	6)
7)						
8)						

Key:

(1) Productive capacity (relative)	(5) Total expenditures on development of innovation (in thousands of rubles)
(2) Yearly output	(6) Price of innovation (in thousands of rubles per machine tool)
(3) Price of product (in thousands of rubles)	(7) Old machine tool
(4) Yearly profit excluding expenditures on development of innovation	(8) New machine tool

of the reasons for weakening of the interest of enterprises in introducing innovations could be reduced to a significant degree if innovations developed in production, measured by the scale of their use, were to be considered items of production activity.

Let us return to the meaning of the term "innovation" [novovvedeniye]. By innovation we mean a special type of product of end use, having no direct material vehicle, that makes it possible to measure a rise in the level of the scientific-technical potential of the country's economy.

The innovation [novovvedeniye] should not be confused with a new product; at times it is altogether not directly connected with the production of the latter. Moreover, one and the same product may be produced with the aid of different innovations. The principal difference is that demand for an innovation and a new product is formed in different consumers and varies in nature. An enterprise adopting an innovation [novshestvo] assumes a social function of cooperating in the acceleration of technical progress and rise of the technical level of production. In making a new product, the enterprise satisfies a concrete need and raises production efficiency among the users of its product. By introducing an innovation [novovvedeniye] connected with a new product, an enterprise contributes to raising of the general level of the scientific-technical potential.² Therefore the new product should be paid for by its concrete user and the innovation [novovvedeniye] by the state organ responsible for scientific-technical progress as a whole.

The innovation should also not be taken for a product of productive activity connected with the creation of innovations [novshestva]: discoveries, inventions and even experimental models of new equipment. The last named must be considered as products of scientific or scientific-production activity. For example, a patent is a product of scientific activity. Innovations

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[novshestva] as products of scientific activity are characterized from the point of view of their "output" by the fact of whether they exist or not. The "output" of innovations [novovvedeniya] is measured by a numerical characteristic--scale of introduction. Innovations [novshestva] as products of scientific or scientific-production activity can have a price, be sold and purchased and participate directly in cost-accounting relations.³

But the creation of innovations [novshestva] and their use in production involves processes that differ from the economic point of view. The price of an innovation reflects all costs going into its creation, while the price of an innovation [novovvedeniye] constitutes only that portion of costs which do not have to be paid for by the concrete user for a correspondingly new product as these costs are for the purpose of raising the general technical level of the country's production. Let us suppose that two enterprises are producing one and the same product where one has been producing it for several years and the other has only recently begun to put it out. If the price of the product is set at the level of the costs of the second enterprise, the expenditures for establishing the manufacture of the given product, that is, for introducing the corresponding innovation [novshestvo], are paid for by the consumer, and the first enterprise undeservedly obtains an additional profit. If the price is set at the level of expenditures of the first enterprise, the product becomes economically unprofitable for the second enterprise. But if the second enterprise is reimbursed for the innovation [novovvedeniye] by an appropriate state organ, the situation changes. It goes without saying that in the process of setting prices for a new product and for an innovation [novovvedeniye] the price of the new product remains at the former level, while the price of the innovation coincides with the costs of its development only as an exception.

Finally, the cost of "manufactured," or "produced," innovations [novovvedeniya] should not be mixed with the size of expenditures from the fund for the development of new equipment for the introduction of corresponding innovations [novshestva]. The difference here is about the same as in the case of ordinary production between the volume of sales and production cost. Moreover, it is a significant feature of the process of recovery of expenditures on the introduction of innovations (novshestva). In our opinion, produced innovations [novovvedeniya] should pay for themselves--in accordance with the scale of their use. This means that first an innovation [novshestvo] is introduced, then it is accepted by society (pays for itself) or it is not accepted (does not pay for itself). Under the existing system of utilization of the fund for development of new equipment, reimbursement of expenditures for its introduction occurs as a rule prior to completion of the introduction (equivalent to the way services in the service sphere are paid for prior to them being provided).

The desire to achieve economic profitability for new products from the first year of their manufacture creates conditions for hiking of prices of new products. Various kinds of additions to prices, stepped and accounting prices do not resolve this problem, especially in those cases where one and the same new product starts being put out by several enterprises at different

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times. Stepped prices may result in economically paradoxical situations for consumers. For example, the YeS-1030 computers, put out two years after the start of production, were technologically more refined and cheaper than the first models. But now, prior to the next revaluation of fixed capital, they will have a different balance cost and price.

Within the framework of the existing mechanism of price formation, the contribution of an enterprise to raising the technical level of production can be accounted with the help of accounting prices for new products given the condition that the difference between the accounting price and the price to the consumer may be paid by some state organ. Accounting prices are used for the determination of all indicators of the operation of an enterprise (products sold, profits, labor productivity and the like). Consumers pay for products on the basis of existing wholesale prices. The difference between the accounting and the wholesale price in this case is an analog of the price of an innovation [novovvedeniye].

But with the help of such accounting prices or markups of existing prices to account for the realized price of only a portion of the innovations [novovvedeniya] because some of them may not be counted with the manufacture of new production. For such innovations, the price and scale of introduction are determined in a more complex manner. Moreover, the economic profitability of innovations cannot be assured solely with the help of the prices of products.

The proposal made by F. Kovalev is close to the idea of accounting prices; he bases the determination of production volume and labor productivity of enterprises-producers of new equipment on the basis of prices higher than wholesale prices for the consumer.⁴ Under conditions of accelerated scientific-technical progress, cost evaluation of operational production activity of the manufacturer according to the proposals of some economists is to be made on the basis of the upper price limit, while wholesale prices are systematically reduced in accordance with changing costs of the manufacturer.⁵ This proposal has something in common with F. Kovalev's proposal. The mechanism of accounting prices is close to our proposal given the condition that if the difference between accounting and existing wholesale price goes to the enterprise, then it is to be paid for by the organs responsible for scientific-technical progress.

Finally, we shall point out that the existing system of incentives for the introduction of innovations [novshestva] into production, particularly the system of material rewards, is based on calculations of the economic gains stemming from the introduction of new equipment and is directly connected to the volume of output of new equipment. With the introduction of volume and price of sold innovations [novovvedeniya], the possibility arises of including payment of bonuses for the introduction of new equipment in the overall system of economic incentives of an enterprise since introduction of innovations increases the volume of sales and profits. Here it is more logical

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to fix the size of the material incentives fund for introduction of new equipment in relation to the volume of sold innovations rather than in relation to the volume of production of new equipment.

We carried out an economical-mathematical study of the question of the theoretical possibility of existence of prices which under the conditions of the existing form of cost accounting would be economically advantageous simultaneously for the manufacturer and the consumer and furthermore would correctly orient the manufacturer in the selection of innovations (novshestva) suited for introduction. An economical-mathematical model was created, describing in abstract form the processes of production and consumption in the national economy. Producers (enterprises, production associations) are characterized in this model by collections of existing methods of production and lists of innovations, which they can introduce, thereby modifying and adding to existing methods.

For this model, the concept of a global optimal plan is defined in relation to this or that criterion of optimality for the entire national economy as a whole, and local optimal plans are also compiled for each producer, depending on his local purpose function. On the basis of a mathematical analysis of the given model,⁶ the following conclusions were drawn:

1. In a number of instances, it is impossible to set prices for new products and materials and other things connected with their production at a level that would be economically advantageous both for the producer and for the consumer.
2. If manufacturers consider the production of innovations [novovvedeniya] as the product of their activity, then such prices will always exist. Including prices of innovations that would be simultaneously economically advantageous both for producers and consumers and, from the point of view of the optimal plan, would correctly orient both the former and the latter toward the selection of innovations [novshestva] for introduction.
3. For the coordination of local optimal plans of enterprises with the general optimal plan, it would be necessary to take into consideration in the results of operation of enterprises the cost of sold innovations [novovvedeniya] determined on the basis of their price and scale of introduction.

Here it is also important to emphasize the following. The selection of innovations as special products and setting of appropriate prices for them results not only in a change in the price of a new product (usually in the direction of reduction) connected with a given innovation [novovvedeniye] but also in certain changes of other prices—of materials, component items, the concomitant old product and so forth. This leads to a change in the efficiency of old methods of production, which it is important to take into account in working out the procedure of correction and revision of existing prices. The regulating effect of cost accounting will only then orient enterprises in the requisite direction when the effectiveness of old methods of production, which will have to be replaced, will be reduced with the

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introduction of innovations [novshestva]. But this does not mean that it is necessary to reduce the prices of the outmoded products. The latter should be kept, as a rule, stable.

The impossibility of setting a single price for a new product that at the same time would be economically beneficial (both for the producer and for the consumer) and properly oriented toward the selection of effective methods of production is related to the fact that, as has already been pointed out, all outlays under the given method of price formation relating to the introduction of innovations [novshestva] are compensated by the consumer. If the creation of an innovation [novovvedeniye] is simply determined and measured by the corresponding manufacture of a new product, then it would be practicable to introduce a so-called accounting price for this product. The consumer in this case would purchase the product at a price that is advantageous to him but one that does not compensate the manufacturer for all his expenses. The latter determines the cost of the sold product according to the accounting (higher) price, and the difference is paid by the state organ. Thus, a part of the expenditures on the introduction of innovations is assumed by the state. But, as it was pointed out above, in the creation of an innovation not directly connected with the production of a new product, the system of accounting prices cannot be used.

The reason for the impossibility of setting single prices that are advantageous to both the producer and the consumer is brought about not only by the fact that the upper limit of a price can turn out to be less than the lower (by definition the price above the upper limit is economically unfeasible for the consumer and below the lower--for the producer). The fact is that the appearance of a new product and its price influences the correlation and level of prices of related products, materials and the like. For this reason cases are possible where in any correlation between upper and lower limits the entire aggregate of prices in the making of economic calculations would incorrectly direct an enterprise toward the selection of variants of production.

It should be pointed out that in the proposed selection and accounting of the cost of innovations [novovvedeniya] a somewhat different dynamics arises compared to the proposals made by A. Koshuta and L. Rozenova.⁷ The wholesale price of a new product is set at the very outset at a level that corresponds to the costs of making this product as one that is already well established. The cost valuation of the work of the manufacturing enterprise and also, which fact is of particular importance to cost accounting, the computation of all financial indicators, are performed on the basis of the sold product indicator, but it includes at the same time the cost of realized innovations. Innovations connected with the manufacture of a new product pay for themselves only in the period of being put into use.

Thus the better the product is put in production, the lower its cost to the producer, that is, its production with time becomes less profitable, which stimulates the development of new innovations, and so on. For the consumer, the price of the product remains unchanged; consequently, the demand for it

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will not grow as it ages, which is not excluded in the case of price reduction. At the same time the absence of change in the level of prices is justified in the already introduced system of price formation with selected prices of innovations. In a transitional period, when existing prices already include expenditures of them being put in production, the prices of old products have to be reduced.

The question of price setting for innovations is outside the limits of the present article. We shall only point out that regardless of the method of price computation, at least three parties have to take part in their setting: the producer of an innovation, the State Committee for Science and Technology and the State Committee for Prices. When an innovation is directly connected with a new product, a fourth party is added--the consumer of the given product. In this case the processes of setting prices for an innovation and for a new product should evidently be combined. Such a mechanism of price formation should be centralized, but for small innovations and for minute products lists, the setting of contractual prices is practicable.

The indicator of the cost of developed innovations can be organically included in the existing system of planning and state statistics. With its aid it is possible to measure and compare the levels and rates of technical progress at different enterprises, associations, in sectors and the national economy as a whole. On the basis of their economic meaning and use value, the created innovations belong to products of final use. When used (by the state), they no longer take part in the economic process comparably to any other product of final use.

The question arises as to whether there is a change in the aggregate cost of products of final use when account is taken of developed innovations. It is difficult to answer this question unequivocally without research and experimentation. On the basis of general considerations, it is clear only that the higher the rate of technical progress, the greater the relative share of innovations in the final product. Mathematical analysis of an abstract dynamic model also shows that throughout the entire period of time the integral cost of final products must remain as before following the removal of innovations, but in some years it may change as a function of change in the rate of technical progress. Since at the same time innovations become part of the final product, then following their deduction the cost of the final product decreases compared to its cost computed in terms of existing prices. Thus it may be presumed that the system of price formation, in which special prices are selected for developed innovations, will ensure greater stability of prices.

The indicator of the cost of developed innovations should be used as an index of the effect of costs on scientific-technical progress. Its use in the usual method of comparing of costs and results makes it possible to measure the economic effectiveness both of individual innovations and of directions of technical progress in sectors and for the national economy as a whole.

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At first glance it may appear that the inclusion among sold products of innovations developed by enterprises and paid for by a special organ would result in insufficiency of financial capital. Mathematical analysis of the corresponding model of the national economy shows that the balance of monetary outlays and receipts will not be disturbed. The given measure will result only in redistribution of financial capital and a change in the structure of financial flows.

The function of utilization and therefore of remuneration for innovations that have been put into effect in our opinion should be assumed by the State Committee for Science and Technology, which as the leading organ carries the biggest responsibility for the level and rate of technical progress in the country. The more it "uses" innovations, the higher does its level become. A payment fund for innovations should be created of funds coming from the state budget, and its size (planned) is determined on the basis of the comprehensive plan of scientific-technical progress. It would seem that the relation between the size of the payment fund for innovations and the rate of technical progress would have to be regulated by an economic mechanism. For example, deductions going into this fund could grow from increased profit obtained from the introduction of innovations. The mechanism of payment for innovations put into use should be centralized. But it would appear that the payment for small innovations would dictate the creation of corresponding funds in ministries, their size should be determined by the State Committee for Science and Technology.

The payment fund for innovations should in principle be distinguished from centralized funds for the development of new equipment, which have for their purpose the covering of expenditures connected with the creation and introduction of innovations [novshestva]. Under the existing financing system, an innovation [novovvedeniye] may not have been put into effect while money for it from the new equipment fund would already have been received. The difference lies in the fact that the fund for development of new equipment pays for expenditures but the payment fund for innovations pays for results. With the creation of payment funds for innovations, the size and role of centralized funds for the development of new equipment should be significantly reduced.

The proposal for payment of innovations [novovvedeniya] is of a general character and impinges on the whole system of price formation, finances and statistics. But it can be implemented gradually in the form of an economic experiment. The transition to payment for innovations could be done for a single sector and for particularly major innovations or for some narrow group of products. For example, the Novosibirsk Sibsel'mash Plant has been consistently suffering losses from putting into production new agricultural equipment. The LDG-15 stubble breaker, which has been produced since the end of 1974, is better than the LD-15 according to all technical-economic indicators. In the 10th Five-Year Plan, its production should produce an

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economic effect amounting to 4 million rubles. But the price set for it (evidently computed correctly with consideration of all factors) is such that the plant will suffer a loss from it amounting to 3.8 million rubles during the five-year plan. Such a situation exists for certain other new types of agricultural equipment. Were payment introduced for innovations connected with this equipment, the rate of technical progress would rise significantly. The field of economic experiment should be gradually expanded for a solution to this problem.

FOOTNOTES

1. See in particular L. Gatovskiy, "Increasing the Orientation of Plans and Stimuli Toward Highly Efficient New Equipment" (VOPROSY EKONOMIKI, No 5, 1977, pp 113-125).
2. The consideration that activity connected with introducing new equipment is really a state function and therefore requires special compensation has been noted in the press (see, for example, L.V. Kantorovich, "Economic Problems of Scientific-Technical Progress"--EKONOMIKA I MATEMATICHESKIYE METODY, Vol 10, No 3, 1974).
3. See in regard to this question the discussion on the pages of the journal EKO. Yu.M. Kanygin, "How to Interest the Leading" (EKO, No 3, 1974, pp 74-81).
4. See F. Kovalev, "Cost Indicators of Products and Labor Productivity" (VOPROSY EKONOMIKI, No 8, 1977, p 57).
5. See, for example, A. Koshuta and L. Rozenova, "Functions of Prices Under Conditions of Scientific-Technical Progress (VOPROSY EKONOMIKI, No 3, 1977, pp 22-23).
6. See V.K. Makarov, "The Existence of Economic Equilibrium in the Model on Innovations," DOKLADY AN SSSR, Vol 231, No 1, 1976; V.L. Makarov, "A Model of Economic Equilibrium, Taking into Account Innovations. OPTIMIZATSIYA, No 18 (35). TRUDY INSTITUTA MATEMATIKI SO AN SSSR, Novosibirsk, 1976.
7. See VOPROSY EKONOMIKI, No 3, 1977, pp 22-23.

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FINAL SOCIAL PRODUCT URGED AS INDICATOR

Moscow VOPROSY EKONOMIKI in Russian No 3, Mar 79 pp 59-69

[Article by E. Gorbunov: "Final Social Product as an Indicator of National Economic Performance and Society's Needs"]

[Text] The materials of the 25th CPSU Congress emphasize that "managerial and above all planning activity should be aimed at final national economic performance." This confronts the science of economics with the task of working the place and role of "final national economic performance" as a category in the set of categories pertaining to reproduction in the political economy of socialism, of elaborating its physical and socioeconomic content, and of developing the relevant indicators. This category's emergence has resulted from the level of maturity of socialist production relations in the period of advanced socialism, from the higher level of economic development of the USSR and the other countries of the world socialist economic system, and from the processes of intensification of social production which are striking deeper in their economy.

Final national economic performance, whose achievement is the aim of society's production activity in the planning period, reflects the needs of the economy which have to be met. These needs are the basis for proportioning social production when the balanced national economic plan is compiled. In the process of drafting the plan a prior determination is made of amounts of the various types of material goods and services that need to be produced and consumed in the national economy so as to ensure that the relevant resources are used completely and with the greatest efficiency to satisfy the needs of society to the maximum.

The needs of society, which figure as an internal driving force of production, depend at the same time on the level of the productive forces and the socioeconomic conditions of society's development. They are directly determined by the results of its economic activity. It is in this sense that Marx wrote about the "quantitatively determined social need..."¹ The quantitative determinacy of society's needs for means of production is reflected in the volume of their productive consumption by efficiency norms (indices of the intensiveness of fixed productive capital and of all fixed capital

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and the worker-output ratio) and standards pertaining to the needs of the public--the volume of consumption of the relevant articles and services based on rates of consumption, the level of personal income and retail prices, and standard levels governing social consumption funds.

Guaranteeing balanced economic growth presupposes above all that the development of social production is planned on the basis of society's scientifically justified needs. "When the productive forces of the present time," Engels wrote, "come to be managed in conformity with their known nature, then, of course, social anarchy in production will be replaced by socially planned regulation of production in accordance with the needs both of society as a whole and also of every one of its members individually."² This presupposes that the planning agencies will have a clear-cut idea of the quantitative and qualitative levels of society's needs. Those needs of society must be scientifically sound and based on the real capabilities of production. To reckon on needs when production lacks the real capabilities is incompatible with scientific planning in the same way as compiling a plan without first analyzing the needs themselves.

Long-range prospective economic planning on the basis of social needs presupposes accurate economic calculation of the resources needed and the anticipated production performance of the national economy. The optimum ratio between the needs of society and social worktime guarantees not only the most efficacious distribution of that worktime among the various spheres where society's aggregate labor is applied, but also the most rational magnitude of socially necessary labor expenditures corresponding to satisfaction of each of society's specific needs.

Marx was the first to discover the mechanism whereby this law is manifested. While he defined the magnitude of a commodity's value in terms of expenditures of socially necessary worktime, he also attributed great importance to establishing the ratio between expenditures of aggregate worktime and its distribution in proportion to the volume and proportions of society's needs. Marx regarded the correspondence between the expenditures of social worktime to the totality of society's needs altogether a more advanced expression of the law of value.³

The correspondence of the distribution of social labor among the individual spheres of its application to the quantitatively determined needs of society is, then, the criterion for judging the optimality of the structure of the socialist economy. The optimum structure of the economy presupposes minimum expenditures of social labor per unit of satisfaction of society's needs. In the light of these principles one determines the ultimate results of expanded reproduction of the social product, of manpower and of production relations.

The interaction between society's needs and ultimate national economic performance is also reflected in the system of socialist production relations. As we know, F. Engels emphasized that economic relations of any given society

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are manifested above all in the form of interests.⁴ The economic interests of individual social groups in society determine the relevant needs for means of production and personal consumption, needs which are objectively determined and do not depend on people's subjective wishes. Formation of the need for means of production is above all bound up with the level of technical achievements and thereby with the magnitude of specific and gross socially necessary expenditures, while formation of the needs for the means of personal consumption is primarily bound up with levels of personal income and retail prices.

The level of satisfaction of the needs of production and personal needs plays a large role in shaping the system of material incentives which stimulate social production, a system that is linked to the level of economic development of society as a whole. Thus when specific measures to develop social production are worked out in national economic plans in the period of mature socialism, not only are the relevant technical-and-economic parameters determined, but the overall results of economic activity are taken into account, and a system of specific incentives is devised to ensure that the particular economic decision is implemented. The interrelationship of all these economic categories thus conforms to this pattern: economic interests--economic needs--factors and incentives of social production--final national economic performance.

Detailing the relations among society's needs, the system of economic relations and the results of social production has great importance to carrying out the economic policy of the CPSU. The role of the indicator of contract product deliveries is increasing in the country's industry and agriculture, the indicator of finished projects put into service is becoming more important in construction, the role of bonuses for raising efficiency and quality is increasing in the material incentive system, and so on. Expansion of the sphere of application of indicators of final national economic performance and of society's needs presupposes that they be strengthened in the upper levels of the system of national economic planning.

The final gross social product, which is one of the fundamental indicators in compiling a balanced national economic plan, is used as an economic indicator embodying society's needs and final national economic performance.⁵ Introduction of the category of the final social product in planning practice by no means signifies a diminution of the role of the gross social product as a planning instrument. Calculations of the proportions of the gross social product in value terms (Departments I and II) and in physical terms (means of production and consumer goods) helps in discovering exceedingly important proportions in the national economy. Only on the basis of that indicator can we determine the relationship between the expenditures of social labor and the entire output produced (the indicator of the productivity of social labor), between the production of the subjects of labor and the output of the end product (the indicator of national-economic materials intensiveness), between the production of all means of production (implements of labor and subjects of labor) and the output of consumer goods:

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that is, the global indicators of national economic efficiency. In the table below we give the indicators of the gross, intermediate, final and net products produced in the USSR in the 1965-1977 period on the basis of data in the statistical yearbooks "Narodnoye khozyaystvo SSSR."

	In Current Prices (billions of rubles)					Average Annual Growth (%)		
	<u>1965</u>	<u>1970</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1966- 1970</u>	<u>1971- 1975</u>	<u>1976- 1977</u>
Gross social product	420.2	643.5	862.6	903.9	945.4	8.90	6.05	4.70
Intermediate product	210.8	327.9	453.0	479.6	502.0	9.25	6.70	5.30
Final product	209.4	315.6	409.6	424.3	443.4	8.55	5.35	4.05
National income (produced)	193.5	239.9	363.3	385.7	403.0	8.35	4.60	5.40

The gross social product is used as the most general description of the results of social production and reflects the turnover of the subjects and instruments of labor in the production process. By comparison with the gross social product, stages of manufacturing the raw material passes through in being transformed into the finished product are not taken into account in calculating the final product. The final social product is characterized by the entire value produced during the year that is intended to satisfy society's final productive and nonproductive needs, the needs of defense and those of foreign trade.

In taking up the question of using the indicator of the final social product in planning, we must bear in mind that in this case we are not talking about replacing the indicator of the gross product, but rather of altering the principle of the connection between these categories. In the period of industrialization in the USSR the gross aggregate social product produced was distributed in accordance with society's priority needs, most of which comprised the needs of production and accumulation, which guaranteed high rates of development of key sectors of the economy. These were the sectors producing the means of production, that is, products the country was experiencing the most acute need for at that time. For instance, over 80 percent of all capital investments in industry in the 1929-1940 period went to the growth of these industries. National economic planning, then, was done as if were from the gross product to the final product. In the present period the indicators of the efficiency and quality of production and of the level of the prosperity of the people, which are embodied most fully in the category of the final product, are advancing into the first place. The distribution of capital investments in the period of advanced socialism is characterized by greater uniformity.

Society's final needs are the needs for consumer goods, services and means of production; the volumes of their production also reflect final national

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economic performance. While they do characterize global proportions in the social production, the indicators of national economic efficiency and indicators of the gross social product, the national income and their component elements still do not give a precise idea of sources for meeting society's needs. The gross social product together with the production of final means of production also includes intermediate means of production (raw materials, supplies and fuel) and thereby encompasses both replacement and also augmentation of material goods.⁶ This indicator does not provide an answer to questions about the magnitude of expenditures attributable to the growth achieved in the final product going to society's consumption, of the share of society's resources and of the use form in which they go to fulfillment of the goals confronting society, nor of the proportions in total expenditures and results. All of this necessitates additional calculations. Solving these problems presupposes that we have a clear-cut relationship between the dynamics, volume and composition of society's needs and the corresponding sources from which they are to be met (production performance), which are in fact reflected in the category of the final social product.

The indicator of the national economy as computed according to the methodology adopted in the USSR Central Statistical Administration does not afford a sufficiently clear-cut division among the different sources of satisfaction of society's needs, which diminishes the possibility of reflecting society's economic and social goals in the plan. For instance, the component elements of the national income--the consumption fund and the accumulation fund--contain elements in common. The accumulation fund, for instance, includes nonproductive accumulation intended to satisfy the personal and social needs of the population. The consumption fund includes expenditures to maintain scientific, cultural and even administrative institutions. At the same time the consumption fund and accumulation fund have qualitatively different makeup and are reflected in a different use form.

The final social product is made up of use values intended to meet society's final needs. Planning the volume and proportions of the final product will make it possible to determine clearly, first, the optimum national economic performance which should be achieved over a particular period; second, the volume of the instruments of labor necessary to achieve that performance; and third, the level of production efficiency over the planning period (by dividing the final product by the resources used). At the same time it will make it possible when proportions in the national economy are being shaped to take into account more fully the real and scientifically justified needs of society for the instruments of labor, consumer goods and services, and to ensure a clearer sense of direction in achieving the highest performance of social production at the lowest expenditure of resources. The statement by T. Khachaturov, member of the academy, to the effect that "the indicator of final output is free of the shortcomings of the indicator of the gross social product.... It can be used to analyze social production, relations among sectors and industries, and national economic planning" is altogether valid in this connection.⁷

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In national economic planning (both current and prospective) on the basis of the final social product a quantitative determination is made of proportions in society's needs which are to be satisfied in the planning period; the latter are compared to the expenditures required for that purpose. A relation is thereby set up between the quantity of worktime expended in the production of a particular article and the size of society's need that is to be satisfied by means of this article; that connection, as Marx wrote, is most typical of a society "in which production is under an effective control that predetermines that production..."⁸ The gross aggregate social product is in this context equal to the sum of the values of the final product and the material expenditures required for that product's production. It plays an important role in the practice of national economic planning and reflects the absolute size of gross expenditures and gross national economic performance.

To correctly judge the category of the final product it is important to have in mind the fundamental change which, as indicated above, has taken place in the present stage in the relation between the aggregate social product and the final social product. In our view ignoring this is the error made by those economists who reject this category on the basis that since the magnitude of the final social product comprises the sum of the national income and depreciation, the national income is in fact, strictly speaking, the final social product. But they do not take into account that it is not so much a quantitative matter as a new approach to national economic planning. Quantitatively the final social product is actually equal to the magnitude of the national income and depreciation (certain authors also include expenditures to meet the needs of defense and foreign trade), but its application along with the gross social product affords additional possibilities of perfecting the planning of social production.

The final social product includes the funds for productive and nonproductive consumption, which correspond to the two basic spheres in which society's needs are formed in the present stage; its makeup can be represented as in the scheme given below.

Makeup of the Final Social Product of the USSR

- I. Fund of resources for nonproductive consumption
 1. Fund for personal consumption of the population (consumer goods and services)
 2. Fund for expansion of the social consumption of the public:
 - a) growth of fixed nonproductive capital
 - b) material expenditures in institutions serving the public

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3. Fund in foreign trade for personal consumption (net difference of exports and imports of consumer goods)

II. Fund of resources for productive consumption

1. Growth of fixed productive capital (net capital investments realized)

2. Growth of current assets in physical form and reserves

3. Replacement of fixed productive capital

4. Material expenditures in scientific institutions and administration and management

5. Net difference of exports and imports of means of production

The table, which is based on this scheme, shows the makeup of the USSR final social product in the eighth and ninth 5-year plans.

Makeup of the USSR Final Social Product (in current prices; in billions of rubles)*

	<u>1965</u>	<u>1970</u>	<u>1975</u>
Final social product	209.4	315.6	409.6
I. Fund for nonproductive consumption	144.8	211.2	270.6
1. Personal consumption of the population	124.9	177.9	231.8
2. Material expenditures in institutions serving the public	11.2	16.6	24.1
3. Growth of fixed nonproductive capital	10.4	19.0	22.4
4. Net difference of exports and imports of consumer goods	-1.7	-2.3	-7.7
II. Fund for productive consumption	64.6	104.4	139.0
1. Growth of fixed productive capital	17.5	32.1	38.8
2. Growth of current assets in physical form and reserves	22.3	33.1	34.6
3. Replacement of fixed productive capital	18.8	29.1	49.9
4. Material expenditures in scientific institutions and administration and management	4.2	6.8	10.7
5. Net difference of exports and imports of means of production	+1.8	+3.3	+5.0

* The figures in the table were computed from data in the statistical yearbook of the USSR Central Statistical Administration entitled "Narodnoye khozyaystvo SSSR v 1975 g."

In analyzing the composition of the final product we should bear in mind that the use form of expression of the fund for nonproductive consumption is heterogeneous. The fund for personal consumption is calculated as the volume of

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real personal income realized (in the reporting period), taking into account retail prices of consumer goods, rate schedules for paid services and an estimate of public consumption funds in money terms, whereas the fund for expansion of social consumption and the fund for foreign trade are determined on the basis of wholesale prices of means of production and export-import prices. But for purposes of solving the specific problems of planning the heterogeneous form of estimation of each of these funds does not have essential significance, since their use pursues strictly functional aims. At the same time it does mean that the total magnitude of the fund for nonproductive consumption has, of course, very provisional significance, reflecting only the most general trends in development of personal and social needs of the population to be satisfied.

In this respect the fund for productive consumption is more uniform in its valuation. We should note the importance of including in this fund depreciation, whose use in the period of intensive development has great importance to ensuring not only simple reproduction, but also expanded reproduction of fixed productive capital.

In the period of extensive development and in the initial transition to intensive development the share of depreciation in society's final social product represents a negligible quantity; the growth of the final product mainly results from the rapid growth of the total labor and means of production applied. So the use of depreciation as a means of expanding production is limited in that period, since the reproductive and technological pattern of fixed productive capital is characterized by a high relative share of the passive portion--production buildings and structures, whose amortization rates are one-third or one-fourth as high as the amortization rates on the active part of fixed capital--equipment and the like.

In the context of the intensive type of development of social production the economic role of depreciation increases sharply. The change in the technological pattern of the assets used toward an increase in the relative share of equipment has a substantial impact on its reproductive pattern as well. There is a substantial increase in outlays to replace fixed assets. In the period of intensive reproduction depreciation has a decisive impact on the growth of capital investments. A rational depreciation policy is a strong economic lever for speeding up technical progress, it tends to reduce specific capital investments, and it is an important and ever growing source of financing capital investments and of their higher efficiency. Depreciation charges included in the accumulation fund of the final social product comprise a source for satisfying the productive needs of society that is unified in its purpose and goals.

Thus both the needs and the final performance are registered in the formation of the final social product with respect to the functional economic purpose of output. This procedure conforms most closely to the basic principle of the balanced national economic plan--that resources correspond to society's needs.

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Foreign trade, whose volume has increased 50-fold in the postwar years, is becoming an exceedingly important and ever stronger factor in Soviet economic development. As noted in the materials of the 25th CPSU Congress, "one of the peculiarities of our time is the growing utilization of the international division of labor for each country's development regardless of its wealth and the economic level it has attained."

To single out within the final social product indicators characterizing foreign trade's contribution to meeting the productive and nonproductive needs of society and its impact on final performance gives a clear idea, we believe, of the role of foreign trade in society's economic activity and makes it possible to reveal the importance to the national economy of the proportions: "foreign trade to accumulation" and "foreign trade to consumption."

It is of great interest to analyze the dynamic pattern of change of the share of society's satisfied needs in the final social product. The table below shows how this has taken shape by years (in percentage of the total):

	<u>1965</u>	<u>1970</u>	<u>1975</u>
1. Needs of the population	65.2	63.3	63.4
Personal consumption alone*	56.2	53.3	54.3
2. Needs of a general government nature**	7.6	7.4	6.6
3. Needs of production***	27.2	29.3	30.0

* Personal consumption of individuals; material expenditures in institutions serving the public; growth of fixed nonproductive capital; net difference of exports and imports of consumer goods.

** Expenditures for science, administration and management, etc.

*** Growth of fixed and working productive capital, reserves and "other" expenditures; depreciation; net difference of exports and imports of means of production.

The figures in the table show that society's needs over the period under review were satisfied while there was an increase in the relative share of production needs (from 27 percent in 1965 to 30 percent in 1975). At the same time, in recent years we note a certain stabilization of the relative share of productive consumption in the adequate needs of society satisfied at the level of 29 percent of the final social product and a sizable reduction in the relative share of general government needs at a level of approximately 7 percent. This reflects certain changes which took place in those years in connection with the deep turn of the Soviet economy toward solving the problems of raising the prosperity of the people and production efficiency. In spite of a certain decrease in the relative share of the needs of the public within the total of society's needs satisfied, the average annual growth rate of their satisfaction is close to the rates of the final social product. Substantial changes also occurred in the very makeup of the fund of nonproductive consumption.

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The high growth rate of the fund for productive accumulation and the increase of its share in the final social product are explained first of all by the high rates of growth of fixed productive capital and of expenditures for scientific purposes. High rates were also typical of the fund for replacement and also the fund for foreign trade (means of production).

The fund for nonproductive consumption now comprises two-thirds of the final social product (65.2 percent in 1965 and 63.4 percent in 1975). We should emphasize the large per capita size of the fund for nonproductive consumption which has been achieved. In 1965 it amounted to 623.6 rubles, in 1970 it was already 866 rubles, and in 1975 it was more than 1,000 rubles. Most of it is used to satisfy the personal needs of the population for food, clothing, footwear, durable consumer goods and housewares, etc. This portion in the total size of the fund for nonproductive consumption has changed as follows in recent years: in 1965 it was 86.3 percent of the fund, in 1970 it was 84.2 percent, and in 1975 it was 85.7 percent, that is, over those years its average share was about 85 percent of the fund for nonproductive consumption.

A number of debatable problems arise in defining the composition of the final social product: for example, the problem of including the value of the output of the sphere of services. In recent years much attention has been paid in our economic literature to the problem of the efficiency of the service sphere from the standpoint of the national economy. For instance, an attempt is made in E. Agabab'yan's monograph⁹ to compute the value of the output created in that sector of social production. The results of this analysis, in our view, provide the basis for including a statistical indicator reflecting the level of satisfaction of social and personal needs for services of various kinds in the national income and in the final social product.

This is important primarily because failure to include the service sphere in the system of sectors creating social use values and exclusion of the labor of performing services from total worktime tend to pull down the actual level of the effective demand of the public and consequently the volume of production of consumer goods. It is for that reason that today we must talk not of consumer goods for the public, mainly consisting of physical goods, but also of the means of consumption, which would include services along with physical goods.

As we know, calculation of effective demand requires an accurate recording of real personal income and the corresponding funds intended to cover that income. At the present time the size of real personal income is calculated as the sum total of the money earnings of workers in the sphere of physical production, receipts from the financial system (pensions, scholarships, etc.) and material expenditures in institutions of the nonproductive sphere, from which contributions to public organizations and also expenditures to pay for services are omitted. Thus on the one hand real personal income does include actual money receipts of workers requiring a corresponding coverage of

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goods and services, while on the other it includes material expenditures of institutions in the nonproductive sphere which are covered in a different form of consumption. At the same time, total real personal income does not include payment for services in which the live labor of workers in the nonproductive sphere is represented. Personal income does include material expenditures, but it omits the results of one of the spheres of social labor.

A comparison of the surplus product created and used in our country, according to data of the USSR Central Statistical Administration on the shaping of the country's state budget, shows that it includes the surplus product created in the service sector.¹⁰ These circumstances lead to the conclusion that the value of services must be included in the consumption fund both within the national income and also within the final social product. Then the size of coverage of their income with goods and services would correspond to the total amount of real personal income ("real" meaning really used).¹¹

The practical need for computation of the complete consumption fund of the public, including both the value of physical goods and also the value of services, led to inclusion in the state plan of a summary standard of living indicator (personal consumption plus a monetary estimate of all services). The principal purpose of this indicator is to reflect in the national economic plan the volume of goods and services, which is needed in order to cover the fund of real personal income (calculated so as to include payment for services) and figures as the point of departure in planning the level and growth rates of industries and sectors in the consumer sphere and of all social production.

Achievement of the goals of communist construction which are contained in the national economic plan as its basic criteria is reflected through the indicator of the volume of effective demand of the public, which on the one hand gives the level of real personal income (and is thus related to the sphere of personal consumption), while on the other--through the retail price index--it indicates the level of production costs determined by the level of efficiency of the entire social economy. Since the constantly growing material and cultural needs of the workers are satisfied through the commodity coverage of effective demand of the public, this indicator is linked most closely to the goal of socialist production.

The following model scheme might be proposed for determining the basic parameters of the national economic plan on the basis of the net final social product--the volume of means of nonproductive consumption.

First, on the basis of an analysis of reported figures on the composition of the population and its projected change one determines the volume of effective demand of the public over the planning period in physical terms. The consumer is concerned with real means of consumption (consumer goods and services), and society must know how much of which particular means of consumption need to be produced to cover the income of each population group. Of course, the gross volume of production of each of the means of consumption

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can be obtained only after we discover the differentiated demand for a given product within each group. Otherwise there might be either a deficit or surplus of means of consumption.

Once we determine the volume of social consumption funds (relative to some standard, we suppose), we added to the level of effective demand for products and paid services and thereby determined the volume of the fund for the prosperity of the people (output for personal consumption plus services).

Then on the basis of progressive (that is, achievable at minimum expenditures of social labor per unit output) norms and balances we calculate the volume of the means of production and manpower resources required to produce the given amount of the means of consumption, or the production requirement of Department II. The most laborious and complicated section of the plan is determination of the requirement of Department I, which includes a calculation of the entire myriad composition of production of the means of production and manpower resources for production of means of production. Totalling up the production requirements of Departments I and II, including as well accumulation for the growth of labor productivity, we obtain the gross production requirement or volume of output of Department I and also the amount of manpower employed in social production.

As a result, since any plan is a balance, the principal task in compiling it comes down to finding the following quantitative relationships: between the volume of effective demand of the public and the amount of the means of personal consumption in physical terms; between the volume of the means of personal consumption and the amount of the means of production and labor resources required to manufacture those means (production requirement of Department II); between the volume of the means of production and manpower required to manufacture the means of production both for production of the means of consumption and also for the production of the means of production (production requirement of Department I). Thus a quantitative link is obtained between the differentiated balance of personal income and expenditures, on the one hand, and the intersector balance of product production and distribution.

Two types of adjustment are made in the structure of social production obtained in this way. First of all, the original approximate projections of the volume of effective demand of the public and of its composition are adjusted with respect to the level of money income, and second, the figures obtained for the worker-output ratio and for the intensiveness of the active portion of fixed capital and all of fixed capital (the averaged requirement for means of production, manpower and capital investments) are revised. By means of forward and backward iterations of the computations we obtained the principal indicators of the national economic plan: the growth rate of the output of the national economy, the level of productivity of social labor, the volume of personal money income, the volume of capital investments, etc.

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Thus division of the final social product into the fund for productive consumption and the fund for nonproductive consumption yields an altogether clear-cut idea of the functional dependence between the goal and means of social production, of the dynamic interrelationship among the individual aggregates of society's needs, of the conditions for balancing them, and so on. Planning agencies will have a reliable instrument for regulating social production in response to changes in those needs.

FOOTNOTES

1. K. Marx and F. Engels, "Sochineniya," Vol 25, Part II, p 185.
2. K. Marx and F. Engels, "Sochineniya," Vol 20, p 291.
3. See K. Marx and F. Engels, "Sochineniya," Vol 25, Part II, p 186.
4. See K. Marx and F. Engels, "Sochineniya," Vol 18, p 271
5. "By the final social product is meant that portion of the gross product which in the form of finished products is made available to the socialist society and is used for the consumption of the workers, for replacement of fixed assets worn out during the year and for accumulation." ("Politicheskaya ekonomiya. Sotsializm--pervaya faza kommunisticheskogo sposoba proizvodstva" [Political Economy. Socialism as the First Phase of the Communist Mode of Production], Politizdat, 1977, p 377)
6. It is well known that Marx puts special emphasis on the impermissibility of multiple inclusion of one and the same value in the gross product when the final result of capitalist production is determined: "... The profit of one sphere of production, since it is included in the production costs of another sphere, has already been counted here as an integral part of the total price of the final product and cannot appear again in the profit column. If it does show up in that column, that is only because the given commodity is itself a final product, and consequently its production price is not included in the production costs of any other commodity.... At the level of the entire society as a whole the profit contained, say, in the price of flax cannot turn up twice: once as a part of the price of the fabric and again as the profit of the flax producer." (K. Marx and F. Engels, "Sochineniya," Vol 25, Part I, p 175) In "New Data on Capitalism's Laws of Development in Agriculture" V. I. Lenin also used the indicator of industrial output minus the value of raw materials. (See V. I. Lenin, "Polnoye sobraniye sochineniy," Vol 27, p 139)
7. T. S. Khachaturov, "Sovetskaya ekonomika na sovremennom etape" [The Soviet Economy in the Present Stage], Izdatel'stvo Mysl', 1975, p 347.
8. K. Marx and F. Engels, "Sochineniya," Vol 25, Part I, p 205.

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9. E. M. Agabab'yan, "Proizvodstvo i potrebleniye uslug v desyatoy pyatiletke" [Production and Consumption of Services in the 10th Five-Year Plan], Izdatel'stvo Mysl', 1977, pp 87-107.
10. L. S. Glyazer, "Nekotoryye voprosy metodologii planirovaniya obshchestvennykh fondov potrebleniya" [Certain Problems in the Methodology of Planning Social Consumption Funds], Izdatel'stvo Ekonomika, 1966, pp 78, 79.
11. Including, that is, the necessary product created in the sphere of services.

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USSR ECONOMY--A SINGLE NATIONAL ECONOMIC COMPLEX

Moscow VOPROSY EKONOMIKI in Russian No 3, Mar 79 pp 97-106

[Article by Yu. Vorob'yev and T. Checheleva]

[Text] During the years of Soviet power in the USSR a national economic complex was created, and it is growing and developing as a comprehensive, single economic organism on the scale of the whole country. This achievement is incorporated in Article 16 of the new Constitution, where it states: "The USSR economy constitutes a single national economic complex encompassing all elements of public production, distribution and exchange on the territory of the country." The single national economic complex of the USSR represents a synthesis of social-economic, production, sectorial and territorial structures of the national economy. It emerges as the consequence of a social-economic community of aims of development based on public ownership.

The creation of a single national economic complex for the socialist country is the result of progressive development of interconnected and interrelated natural historical processes--social division of labor and its cooperation. But both these processes are of a concretely historical character and come into existence under the influence of the form of production relations predominant in the country and determined by its economic laws. "Diverse stages in the development of division of labor are at the same time diverse forms of ownership, that is, each stage of the division of labor also determines the relations of individuals to each other corresponding to their relation to materials, tools and products of labor."¹ Each new means of production complicates these processes, reaching a higher level of division and cooperation of labor. "The level of development of the productive forces of the nation," K. Marx and F. Engels wrote, "are disclosed most graphically in the degree of development of division of labor in it."² Each subsequent method of production inherits the level of division and cooperation of labor achieved in the preceding stage, transforms these processes in accordance with the specific character of their production relations and develops them further, this time on its own social-economic foundation.

Capitalism immeasurably developed division and cooperation of labor and the related processes of concentration and centralization of labor and capital,

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adding thereby a social character to the development of productive forces and strengthening their tendency toward collectivization. The manifestation of this tendency and partial recognition of the social nature of productive forces emerges as "conversion of large organisms of production and communication-- first into the property of joint-stock companies and later into trusts and then into states."³ But this does not destroy the capitalist character of productive forces: private interests of individual capital turn out to be decisive in the selection of a variant of economic development. The aspiration for economic unity caused by social division of labor and collectivization of production only intensifies the basic contradiction of capitalism, which is reproduced as opposition between organizations of production at individual factories and anarchy of production in all of society."⁴

The economic basis of the economy of a capitalist country is private ownership of the means of production; it gives rise to competition and anarchy and brings about not the amalgamation of sectorial, territorial and other economic units and individual people but their disjunction. Private ownership, as pointed out by F. Engels, isolates each into his [its] own crude individuality, inimically opposing identical interests.⁵ In taking this into account, he wrote that such expressions as national wealth, national economy are inapplicable relative to the economy of a capitalist state. "As long as private ownership exists, this expression does not make sense... It is necessary either to reject this expression altogether or to adopt such preconditions under which it would make sense."⁶ Such preconditions include the destruction of private property and the establishment of public ownership of the means of production.

The elimination of private ownership of the means of production is the chief, objectively necessary precondition for the creation of a single national economic complex in a socialist country. Its formation is a long process, encompassing an entire historical stage. In the transitional period from capitalism to socialism, basic objective conditions are created for the formation of a single national economic complex: collectivization of the means of production in all spheres of human activity; victory of socialist production relations in all sectors of the national economy and on the entire territory of the country; creation of a material-technical base for socialism with a new sectorial and territorial structure in keeping with the aim of socialist society; elimination of sharp differences in the levels of social-economic development of the regions of the country accompanied by a general significant rise in the levels of development of society and consumption of the population.

All this in its turn ensures the direct subordination of production to all-round development of the individual; the possibility and necessity for a conscious, planned regulation of the processes of development of collectivized production, including social division of labor, elimination of exploitation of man by man, transformation of individual labor into the only source of man's life, dissemination of the principles of remuneration for labor, comradesly cooperation and mutual aid over the entire territory of the country

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and in all spheres of human activity and in the final analysis strengthening of the solidarity and social community of individual nations, nationalities, collectives and individuals.

The conditions for the formation of a single national economic complex developed together with a rise in the level of maturity of socialist society and the levels of cognition and employment of economic laws. In the transitional period from capitalism to socialism, the USSR national economy was characterized by significant intersectorial differences in the material-technical base, social and territorial differentiations in levels of labor productivity, production and consumption of the population, which limited the realization of possibilities of formation of a single national economic complex. Its bases were laid with the completion of this period. In 1937 the share of the country's socialist structure reached 99.1 percent in the national income and in industrial production--99.8 percent, in the gross production of agriculture--98.5 percent, while in 1922 this share amounted to, respectively 30.0 percent, 68.3 percent and 1.5 percent. As a result of changes in the economy, the class composition of the USSR population radically changed. In 1913, in the structure of the population of Russia 17 percent were workers and employees, 66.7 percent--individual farmers and noncooperative handicraftsmen and 16.3 percent--exploiting classes (bourgeoisie, landowners, merchants and kulaks). By the end of the 30's, the exploiting classes had been liquidated, the number of individual peasants and noncooperative handicraftsmen was reduced to 2.6 percent. The USSR population essentially consisted of workers and employees (50.2 percent) and kolkhoz peasantry (47.2 percent). There came into being an "association in which the free development of each person became the condition for the free development of all."

Further formation of a single national economic complex in the USSR was interrupted by the war, which held back the advancing development of our economy for almost eight years. The postwar period has been characterized by the high dynamic quality of the country's social-economic development and significant qualitative changes in all spheres of collectivized production and the life of Soviet society. The per-capita production of the national income in 1970 had grown 6.9-fold compared to 1940. Successes in the development of productive forces and production relations brought on in the USSR the building of an economy of a developed socialist society, one of whose characteristic features is the creation of a single national economic complex for the country.

The creation of a single national economic complex in a socialist country means ensuring not only unity of aim in the development of collectivized production but also approximately equal conditions for its realization in the territorial, sectorial and social aspects.

The term "single" characterizes the internal qualitative features of the economy of a socialist country--community of aims in social-economic development, means and methods of their achievement. The unity or wholeness of

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the country's economy is an objective feature of the socialist economy stemming from public ownership and the necessity of organizing the process of reproduction on the basis of a single national economic plan, determining the objectives and tasks of society's social-economic development as well as the ways and means of their achievement.

The establishment of socialist forms of production in all sectors of the national economy and on the entire territory of the country means in addition the creation of objective conditions for the operation of a system of socialist economic laws determining the place in which the fundamental economic law belongs. Its realization is ensured on the basis of interaction of economic laws: planned, proportional development of the socialist economy, distribution of labor, steady growth of the productivity of collectivized labor, law of value and the like. The operation of the economic laws of socialism as a system expressing the entirety of the process of socialist reproduction is also imparted by the unity of the national economic complex.

The further rise of the level of division of collectivized labor and of the level of sectorial and territorial specialization of the economy complicated the sectorial structure, increased and deepened production ties and intensified their intersectorial and interregional interaction. An objective consequence of these processes was the rising degree of integration of the USSR national economy. The integrated character of the socialist system of economy means harmonious combination, internal organic interrelation and interaction of all its structures: social-economic, sectorial, reproductive, technical-economic, territorial. The determination of the degree of integration of the development of the system of economy boils down to an evaluation of the comprehensiveness of optimization of its structure. The criterion of optimality is to be seen in its most general form in the attainment of the greatest economy of the aggregate (live and past) expenditures of labor in all links of the process of reproduction and on the entire territory of the country for the production of material wealth and spiritual services necessary to society.

Consequently the single national economic complex of a socialist country is a planned, economically and socially practicable organization of socialized production, distribution, exchange and use of internally organically interactive reproductive, sectorial and territorial composite parts of the country's economy in the interest of a steady rise of the population's living standard and the all-round development of each individual. From what was said above it follows that the establishment of public ownership of the means of production is the main and necessary condition of the creation of a single national economic complex. It is formed in the process of the establishment and development of socialist production relations, the construction of a material-technical base that is adequate to the objectives and tasks of a developed socialist society and also to the provision of the community of social-economic interests of all its nations, classes and strata. Division and cooperation of labor bring about growth of its productivity and economic effectiveness of socialized production. The chief factor in the rise of economic effectiveness of production of cooperation of labor lies in the

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merging of many forces into one common one and the birth on this basis of a "new productive force"⁸ which significantly exceeds the simple mechanical sum of these forces. "In all such cases the result of combined labor either cannot be achieved at all by single efforts or it can be achieved either in the course of a much longer time or on a miniscule scale."⁹ A single national economic complex of a socialist country, constituting the highest of historically existing forms of cooperation of socialized labor contributes to the ensuring of higher efficiency of socialized labor.

In addition to general factors characteristic of cooperation, the single national economic complex as its specifically socialist manifestation gives rise to new factors for raising the efficiency of socialized production, reflecting the special features of socialist relations of production, distribution and exchange. These would include first of all the possibility and the necessity of all-round planned organization of the functioning of a single national economic complex and also the growth of the social and labor activity of the population, collective and individual interest in and responsibility for common results, socialist awareness and discipline of labor and the development of relations of comradesly cooperation and competition.

The single national economic complex is not a closed-in economy. One of the important characteristics of the single national economic complex of the USSR and other socialist countries is activation of foreign economic ties both with countries of the socialist system and with capitalist countries. The deepening of socialist economic integration and rationalization of economic ties with capitalist countries constitute one of the important factors in acceleration of the rate of the scientific-technical revolution and rise of the economic effectiveness of the constantly developing national economic complex of each socialist country.

The scale of the single national-economic complex and its structure, the number and scale of regional and other production complexes composing it depend on the size of the country's economic potential, the size of its territory, the wealth and diversity of its natural resources, and diversities of the geographic and social-economic environment. The USSR single national economic complex is of great size and is characterized by a multistage hierarchical territorial-production structure. Its management is on the basis of the principle of democratic centralism, combining strict centralization with broad initiative and operational independence of all the economic-organizational units comprising this complex for more rational and most rapid realization of the aims of social-economic development of society. A leading role in this is played by provision of the interests of the national economic complex of the country as a whole. Priority of aims of all of society over the aims of the elements comprising it is one of the basic principles of socialism. Complication of the internal organizational structure of the single national economic complex increases the urgency of the problem maintaining the interrelation of the parts and the whole.

The necessity of the formation of the single national economic complex of the country emerges as an objective law for a socialist state, inasmuch as the

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economic basis of this process is public ownership of the means of production. The creation of a single national economic complex within the limits of an individual socialist country constitutes a definite stage in collectivization of the economy on the road to the building of a communist society. All this predetermines the common character of this law for all countries of the world system of socialism stemming from the objective operation in them of the economic laws of socialism and first of all the basic economic law and the law of planned, proportional development of the economy.

At the same time, this process proceeds in each socialist country under the influence of concrete historical, social-economic and geographic conditions which exercise a major influence on the formation of sectorial and territorial structure of the economy. The particular feature of the formation of the USSR national economic complex was determined by: victory of socialism in a country with an average level of economic development significantly depressed by wars and intervention; hindrance to the establishment of new economic ties and participation in international division of labor not only by the post-revolutionary economic dislocation but also by measures taken by capitalist countries for artificial economic isolation of the USSR from the external world, the existence of the USSR as the only socialist country in the world up to the end of World War II; the tremendous size of the territory with its multinational population occupied by the Soviet state; sharp differences in the levels of social-economic development of the regions of the country inherited from the prerevolutionary past, and others. Under these conditions the national economic complex of the USSR had to be formed economically independent of the capitalist encirclement within a short a period as possible. All this predetermined the high priority of forced industrial development of our country and the predominance in industry of sectors for the production of the means of production in general, including for the production of the means of production in particular; the objective of the process of expanded reproduction to provide itself for the satisfaction of its own needs; the complex territorial structure of the single national economic complex; redistribution of financial and material resources to economically backward regions of the country and their accelerated development.

The characteristics of the national economic complex of the country reflect from the point of view of the sectorial structure of production realization of general economic proportions of the national economy; its territorial structure is formed under the influence of regional division of socialized labor and corresponding distribution of productive forces. The relatively high and stable norm of production accumulation in the national income of the USSR, maintenance of an optimal proportion between accumulation and consumption and consistent implementation of an economic policy aimed at progressive changes in the sectorial structure of socialized production ensured high and stable rates of growth of the gross social product and the national income of the country, a rapid rise in the level of its economic development and the realization of a broad social program. The most characteristic progressive changes in the sectorial structure of the national economic complex of the USSR are: growth of the share of industry in material production and the relative reduction of the share of agricultural production; rise of the

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relative share of processing sectors; the sharp rise of the production of sectors of industry in which first of all modern achievements of scientific-technical progress are applied (machine building, chemical industry, electric power). The production output of machine building has grown at the highest rate. Thus with a seventeenfold increase of the total volume of production of industry in the USSR during 1940-1975, the production output of machine building grew 68-fold. The structure of machine building itself has changed significantly, especially in the last 15 years--the share of instrument making and of computer technology equipment sharply increased.

Big changes have taken place in the distribution of socialized labor among the spheres of human activity. In 1977, sectors of the nonproductive sphere employed 25.1 percent of the total population employed in the national economic complex, whereas in 1950 they employed only 13.6 percent and in 1960--17 percent.

An extremely important synthetic indicator showing the rise of the country's economic development and qualitative progressive changes in the sectorial structure of the national economic complex is the growth of exports in foreign trade turnover. This is largely connected with a rise of the share of the processing sectors in the structure of industry, the demand for the products of which on the foreign market has been growing faster than raw and other materials. This tendency reflects the general patterns in the rise of the level of the social-economic development of society. In the USSR, the growth rate of export of goods in the postwar years significantly exceeded the growth rate of the country's national income. Thus with a 6.96-fold growth of the national income during 1950-1975, exports of goods in the same period grew fifteenfold, during 1960-1975 the corresponding indicators were 260 and 480 percent. The structure of USSR exports has changed significantly. Exports of agricultural goods have been sharply reduced and those of manufactured goods have grown; the structure of the latter is dominated by products of the processing sectors.

Its territorial structure is of major importance for the analysis and study of the single national economic complex. K. Marx characterized territorial division of labor as "securing certain sectors of production to certain regions of a country..."¹⁰ Like sectorial, territorial division of labor is a necessary condition of increasing the economic effectiveness of socialized production. Sharp regional differences in the levels of social-economic development of prerevolutionary Russia and the existence in it of national outlying districts with the predominance of feudal relations in them did not permit the creation of firm economic ties and the all-round use of the country's natural resources.

Establishment of the Soviet power brought significant changes in historically existing ties among separate regions of the country: economically based ties were further developed; in addition to this new economic ties and new relations arose under the influence of objective laws of the distribution of

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socialist production and principles of territorial organization of socialized production developed on their basis. General realization of the requirements of the economic laws of socialism and planned rise of the effectiveness of the country's single national economic complex lie at their basis. For these purposes there are carried out: rational territorial division of socialized labor among republics and economic regions and the comprehensive development of their economy; bringing of production closer to sources of raw materials and regions of product consumption; equalization of the levels of social-economic development of the regions, and others. The consistent planned putting into operation of the socialist principles of territorial economic management ensured the creation of the single national economic complex with a practicable territorial division of socialized labor and advantageously mutually created economic ties.

The single national economic complex existing under the conditions of mature socialism is characterized by a developed system of territorial proportions corresponding to scientifically based principles of distribution of productive forces. In the union republics and large economic rayons there have been created interconnected sectors of the productive and nonproductive spheres; the sharply grown potential of the republics provided a significant rise in the degree of participation by each of them in the country's overall potential. At the same time the integration of each republic's economy grew.

In the single national economic complex of the USSR there is ensured the coordinated development of the economies of the union republics, and inter-republic economic ties are being comprehensively improved. Regional economic complexes constitute integral component parts of the country's national economic complex. They operate on the basis of production ties, the basis of which is national economic specialization of economic regions, determining their place in all-union division of socialized labor. The higher the level of a region's national economic specialization, the more diverse and close are its production ties with other regions of the country. Specialization of the regional complex also determines its specific character, distinguishing the given complex from the others. It thus adds a special character to the make-up of the sectors and the production ties of each region.

The deepening under current conditions of the interconnection of the republics' economic complexes is expressed in the fact that the results of their economic activity are influencing increasingly more directly the attainment of national plans and goals. This is particularly clearly manifested in the implementation of comprehensive intersectorial territorial programs of union significance: agroindustrial, fuel-power, investment, machine-building and others.

Side by side with existing ones, the West-Siberian, Pavlodar-Ekibastuz, Mangyshlak, Orenburg, Nizhnekamsk, Yuzhno-Tadzhik, Bratsko-Ust'-Ilimskiy and other territorial-production complexes are being created and are developing successfully. Their formation is through the joint efforts of all republics in the interest of all the Soviet people.

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The preeminence of the planned system of economy is ensured by the combination of comprehensive development of the economy of the republics, including diverse mutually complementary sectors, with the specialization of those sectors for whose functioning most favorable conditions exist in a given republic. Of great importance to this are rational use of an already created economic potential, the establishment of a proper correlation between intensive and extensive factors of the development of republics' economies, and maintenance of the most effective intersectorial and territorial proportions. The increased interdependence of the economies of the young republic as parts of a single economic organism enhances the role of each in the solution of the national economic problem of the economic effectiveness of socialized production of the country as a whole.

The contribution of the republics to the development of the all-union national economic complex is not determined solely by the scales of their production. An important role is played by the level of each republic's efficiency of socialized production. This increases the importance of developing a methodology for the valuation of the effectiveness of republic complexes with consideration of the satisfaction of both intrarepublic and all-union requirements. So far calculations in this field have been of an experimental character, and reporting and plan indicators have not been included in the system.

Increased economic effectiveness of territorial-production complexes can be achieved in different ways. An economic effect, as we know, can be produced from the granting of additional financial and material resources. But such a situation is usually of a temporary character, since it may bring on an insufficiency of financial and material resources in other component parts of the single national economic complex and reduce the general results of an increase in the efficiency of production. Under the conditions of the country's national economic complex, individual territorial and sectorial production can achieve better economic results only through increased economic effectiveness in the use of material resources allocated to each economic link with maintenance of reciprocal intersectorial and interterritorial production ties.

The country's national economic complex is a dynamic system, the optimality of whose sectorial and territorial structures changes with a rise in the level of social-economic development and a change in the objective conditions of the process of reproduction. Thus putting into use of the world's achievements of the scientific-technical revolution creates new demands on the progressive sectors of the economy and introduces significant changes in the correlation between the spheres of material and nonmaterial production, industry and agricultural and the processing and extractive sectors. With a rise in the level of development of productive forces and production relations, problems of economy and rational use of natural resources, protection of man's environment tend to require an increasingly more complex approach and solution; the development of new uninhabited regions of the country becomes economically effective. At the same time, with the rise in the level

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of social-economic development of society and a change in the objective conditions of production, the advantages of socialism are manifested increasingly clearly. Putting into effect of these advantages requires a constant improvement of the forms and methods of organization and operation of the national economic complex. It is namely this approach to the development of the national economic complex of the country that is attested to by the experience of economic construction in the USSR. Thus, taking into account the rise of the level of the country's social-economic development and the entry of the USSR economy into the stage of developed socialism, the party and the government have worked out and are implementing an economic policy providing for a transition to a predominantly intensive type of management of the economy and a rise in the economic effectiveness of production and quality of work at all economic-organizational levels. For these ends, a broad program is being implemented in the 10th Five-Year Plan to improve the organizational structure of administering of the country's national economy-- the creation of production associations in industry is being completed, interfarm cooperation and agroindustrial integration are undergoing wide development, general schemes of management in capital construction are being developed, and so forth. In this a great deal of attention is being given to raising the level of sectorial and territorial specialization of socialized production and the related level of integration of the economy through the development of linked and auxiliary sectors and also sectors of the productive and social infrastructure.

An important role in boosting the economic effectiveness of the country's single national economy complex is played by improvement of its organization and operation as a system ensuring the interaction of the whole with its parts in economic-organizational, sectorial and territorial aspects. The solution of this problem is complicated with the rising level of complexity of the economy, growth of production ties and acceleration of their change under the influence of the scientific-technical revolution. In this connection there is complicated the task of ensuring proportionality in the development of the composite parts of the country's national economic complex, which at the same time increases its importance in the solution of the problem of efficiency of socialized production.

With a rising level of the country's social-economic development and changing conditions of socialized production, the principles of sectorial and territorial organization of the single national economic complex are also undergoing change. At the present stage, there is required the ensuring of a dynamic, proportional development of the union republic in the single national economic complex. Further development of the economies of republics and regions, intensification of their specialization, expansion of the sectorial structure of their economies and formation in the republics and regions of territorial-production complexes complicates the solution of the problem of their coordination. Of basic significance to this question are the decisions of the 24th and 25th CPSU Congresses, which determined ways of improving the combination of sectorial and territorial planning.

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The 25th CPSU Congress pointed out the need for increasing the role and responsibility of the union republics in the solution of problems of production and social-cultural construction. This presumes fuller utilization by republics of the rights granted to them in the management of the economy and in increasing the comprehensiveness of planning of the development of productive forces, production relations and the solution of a wide range of social problems.

Centralized planning management of the national economy ensures the all-round economic unity of the union republics. At the same time, with a developed socialist society, all the conditions have been created for the full realization of the principles of democratic centralism in management of the national economy. The powers of the union republics and the tasks assigned to them in the development of the national economy have been set forth in the USSR Constitution, where there is indicated a wide range of rights and duties for republic organs relating to management of the economy, coordination and control of the operation of enterprises and organizations of union subordination. Of major significance in this is improvement of the system of territorial planning and economic management, ensuring a harmonious combination and consideration of all-union and republic interests. The planned improvement of division of labor between republics and regions occurs on the basis of a consideration of the influence of scientific-technical progress on the development of productive forces and the utilization of the raw-material resources of the natural environment.

Further strengthening of relations of mutual assistance and improvement of the forms and methods of cooperation of socialist nations and nationalities constitute an important factor of development of the economy of each republic and improvement of the single national economic complex.

FOOTNOTES

1. K. Marx and F. Engels, "Sochineniya" [Works], Vol 3, p 20.
2. Ibidem.
3. Ibidem, Vol 19, p 229.
4. Ibidem, p 217.
5. Ibidem, Vol 1, p 559.
6. Ibidem, p 548.
7. Ibidem, Vol 4, p 447.
8. Ibidem, Vol 23, p 337.

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9. Ibidem.
10. Ibidem, p 366.

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2. F. Engels, "Sketches for a Criticism of Political Economy" (Ibidem, Vol 1).
3. F. Engels, "The Development of Socialism from Utopia to Science (Ibidem, Vol 23).
4. V.I. Lenin, "State and Revolution (V.I. Lenin, "Polnoye sobraniye sochineniy" [Complete Collection of Works], Vol 33).
5. "Konstitutsiya (Osnovnoy Zakon) Soyuza Sovetskikh Sotsialisticheskikh Respublik" [Constitution (Fundamental Law) of the Union of Soviet Socialist Republics]. Politizdat, 1977.
6. L.I. Brezhnev, "O projekte Konstitutsii (Osnovnogo Zakona) Soyuza Sovetskikh Sotsialisticheskikh Respublik i itogakh yego vsenarodnogo obsuzhdeniya" [On the Draft of the Constitution (Fundamental Law) of the Union of Soviet Socialist Republics and the Results of its Nationwide Discussion]. Politizdat, 1977.
7. V.N. Cherkovets, "The USSR Economy--a Single National Economic Complex" (PRAVDA, 20 October 1978).

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