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USSR Report

ECONOMIC AFFAIRS

(FOUO 11/80)

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USSR REPORT
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ECONOMIC POLICY, ORGANIZATION, AND MANAGEMENT

EFFECTIVENESS OF INDUSTRIAL ASSOCIATIONS EVALUATED

Moscow VOPROSY EKONOMIKI in Russian No 4, Apr 80 pp 83-92

[Article by A. Nagovitsin: "The Effectiveness of All-Union Industrial Associations"]

[Text] The Accountability Report of the CPSU Central Committee to the 25th party congress observed that "the accent on efficiency is a key component of all our economic strategy." In conformity with this, the contemporary theory and practice of building communism are devoting more attention to the questions of improving the management system for industry, in particular to the formation and further development of industrial associations. These associations were set up in place of the former main production administrations of the sectorial ministries, where they were administrative bodies, a structural element of the ministry administrative apparatus. These main administrations were not materially accountable for the work of the subsector because they were budget-financed organizations receiving their money for various purposes (production development, material incentive, and the like) in a centralized manner.

Adoption of the "General Statute on All-Union and Republic Industrial Associations"¹ made it possible to coordinate the process of forming and refining the activities of industrial associations with ministry development of master plans for management. In recent years 35 master plans for management have been introduced in industry.

A special section on planning improvement in economic management has been included in the national economic plan for the first time. This plan should envision the development of effective forms, structures, and techniques of management in conformity with the development of public production. The introduction of indicators of planning for improvement of the system of managing sectors of public production, for example the number of middle-level administrative agencies included in a ministry or department system and the number of elements

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in the management structure of a ministry or department system, in the 10th Five-Year Plan was very timely.

The economic impact from the establishment of all-Union industrial associations (VPO's) is linked to the switch to economic accountability methods of operation by new organizational structures as compared to the former main administrations. The main administrations did not insure development of appropriate production specialization and did not work on questions of utilizing scientific-technical advances, quality of output, efficient use of investment, and the like. Separating out an economically accountable organization like the VPO from the administrative apparatus of a sectorial ministry increases material accountability for subsector work. The formation of new administrative elements in the form of industrial associations will make it possible to discover new reserves for further economic growth. In this connection, the measures envisioned in the decree of the CPSU Central Committee and USSR Council of Ministers entitled "Improving Planning and Strengthening the Impact of the Economic Mechanism on Raising Production Efficiency and Work Quality" become important. This decree envisions "consistent implementation of measures toward specialization and cooperation in production, and centralization of auxiliary services and administrative functions at the enterprises and organizations being joined together."

The work experience of the ministries of the electrical equipment industry, agricultural machine building, chemical and petroleum machine building, instrument making, automation equipment, and control systems, and heavy and transport machine building confirms the effectiveness of sectorial management based on VPO's. Formation of VPO's in these sectors and centralization of economic stimulation funds permitted more operational solutions to problems of development and implementation of comprehensive programs, including measures to develop capacities and questions of the social development of the basic elements. This gave stability in fulfillment of plan assignments. It is simpler for different VPO's to set up direct, long-term ties for delivery of output based on contracts, which promote the establishment of ties between the producer and consumer, making it possible to satisfy the need for finished products with given parameters at the necessary time.²

Most of the articles on management review the questions of collectivization of production, development of the system of economic management, improvements in organizational structure, and economic planning methods of management. But the problems of the effectiveness of setting up and developing organizational structures for management, in particular VPO's, do not receive proper attention. Let us consider the principal sources of the effectiveness of VPO's.

An evaluation of the activity of any element of economic management includes, economic, technical, and social aspects.

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Efficiency (effectiveness) as a category is far broader than the concept of economic efficiency because it is characterized in noneconomic terms as well as by the economic evaluations noted above. But the economic evaluation of the activities of a VPO is expressed in the economic results of its activity. With all the diversity of methods proposed in the literature for calculating the efficiency applicable to different levels of the economy, the general methodological approach to determine efficiency as a category that expresses the quality of management and economic results of national economic development is overlooked.³

The complexity of calculating the economic impact applicable to a particular level of the economy, including industrial associations, arises from the need to give a quantitative description when there is no integrated indicator of efficiency.⁴

In our opinion, to consider production efficiency only as a national economic category artificially limits the analysis and taking of steps to raise the efficiency of the particular segments. The formation of multifaceted new structures of the VPO type demands a study of management efficiency in the middle level of management as well. The efficiency of different sectors, subsectors, and so on down to the basic element (enterprise and production association) is in a certain sense a component of national economic efficiency. Moreover, determining efficiency for particular elements of national economic management is the most thoroughly developed part of the economic theory and practice of developed socialism.⁵ This is confirmed by the fact that the "Methodological Instructions" of USSR Gosplan present a complete system of indicators, which means identical in assortment, structure, and content, for planning and analysis of production efficiency at all levels, both for the national economy, Union republics, and ministries or departments and for the all-Union and republic industrial associations, production associations, combines, enterprises, and organizations.

The current situation can be explained by the fact that the economic impact of the VPO is a result of the implementation of measures that differ in their orientation and deal with both production and management. In practice there are no cases of "pure" structural changes in production or administration. Both types of structural changes complement one another. The master plans of management being developed by the sectorial industrial ministries are a form of reflection of these structural changes. They indicate a system of measures that encompasses production and management. The intertwining of different measures of this sort makes it difficult to conduct a factor analysis of the component parts. Therefore, the use of a system of indicators that complement one another permits reaching conclusions on the level of efficiency of VPO's.⁶

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At the present time the system of indicators of production efficiency at any level of management consists of the indicators that describe inputs to production, results of production, and impact in production. The first group of indicators includes one-time inputs (technical and organizational level of production, capital investment and its efficiency) and production inputs (live labor and material-energy resources, total inputs for production). The second group includes the production and quality of output, sales, and profit. The third group of indicators characterizes the efficiency of resource use, that is, inputs of live labor, fixed capital, and material-energy resources. The imperfection in this system of indicators with respect to VPO's is that it does not correspond to choosing "one's own" efficiency criterion for establishing the middle level of management from the standpoint of its distinctive functioning characteristics. The system of efficiency evaluation used for a single enterprise is not suitable either. In this case the main generalizing indicators are profit, profitability, and prime cost or efficiency indicators — labor productivity, quality of output, and output-capital ratio. This system of indicators does not reflect the specific characteristics of efficient operation of an industrial complex as an intricate combination of different components, beginning from enterprises and industrial organizations and ending with scientific and planning institutions. To evaluate the activities of each of these organizations it is necessary to have "their own" criteria which reflect specific and distinctive features of them.⁷ But here a number of unresolved problems arise.

One of the most difficult problems is taking account of the impact of the factor of the time during which the changes in the elements being evaluated take place, for example two, three, or five years. This makes it more difficult to compare results and inputs.

V. I. Lenin observed: "The nature of the organization of any institution is naturally and inevitably determined by the activities of this institution."⁸ The choice of the indicated efficiency criterion for our purposes is based on the premise that VPO's function to perform the following tasks: first of all, those tasks which cannot be accomplished independently by the subordinate enterprises, production associations, and organizations; secondly, those which should not be done by the ministries, or the existence of the middle level of industrial management will make no sense. Therefore, the criterion for evaluating the economic efficiency of VPO's is fulfillment of the goals given to the industrial complex and the means necessary to achieve them in the association. It is necessary to determine goals in order to compare results achieved and degree of approximation to these goals and to measure the level of use of resources put at the disposal of the VPO. This approach meets the requirement of correlating the indicators characterizing production results with indicators

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that define production inputs. Therefore, one of the key aspects of calculating the efficiency of industrial associations is the method of shaping the goals.⁹

The decree of the CPSU Central Committee and USSR Council of Ministers entitled "Some Steps Toward Further Improvement of Industrial Management" defined the principal tasks facing the industrial associations: development and refinement of production, fuller satisfaction of national economic and public needs for corresponding types of output; development of optimal plans and fulfillment of assignments for production, profit, payments to the budget, and other state plan indicators; insuring technical progress; producing high-quality output; raising labor productivity and production efficiency, carrying out concentration, specialization, cooperation, and collaboration in production, maximum use of internal reserves, intensification by production of all means, and so on.

It is distinctive that these tasks define the means of achieving the goals of industrial associations. However, the above-listed goals are important not only for the middle level of management, but also for any organizational structure. Therefore, the efficiency of performance of the goals given to VPO's is characterized by general economic criteria which express the final results of this structure.

In addition to general economic criteria each structure has specific features that are distinctive to it alone. This approach makes it possible to identify the features of specific goals given to VPO's, above all from the standpoint of distinguishing industrial associations from the former main administrations. The formation of an industrial association does not by itself signify the formation of a unified and stably operating production-management complex. It does not automatically solve the problem of efficient operations by such a unit;¹⁰ these operations should not deviate from the developmental parameters assigned by directive. It is precisely at the interface between formation of the new structure and elimination of the old that specific economic criteria characterizing VPO operations should be sought. In other words, it is here that we should look for an opportunity to distinguish the primary and secondary impacts from creation of the new organizational structure of management.

The primary effect of the formation of all-Union industrial associations is a reduction in the number of elements in the management system and size of the administrative apparatus. The subsequent impact will be expressed in concentration, specialization, and a rise in the technical level of production and in strengthening economic methods of management. This approach corresponds to the principle of unity of the historical and logical because the formation of industrial associations made it possible to reduce the total number of

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middle-level management bodies. For example, the structure of management in the petroleum industry remained almost without change for 20-25 years with 6-7 elements, and there were five elements in the coal and food industries, in the system of the Ministry of Fishing and elsewhere. Before the master plans of management began to be developed in 1972 the industrial ministries had 1,407 middle-level management bodies. The master plans eliminated multiple levels of management.

In some cases this affected main administrations, in others trusts, combines, and administrations. There were cases where main administrations and trusts, main administrations and (standard) administrations, and other combinations were disbanded at the same time. The number of middle-level management bodies in the industrial ministries was reduced to 514, three-eighths of the former number, and there were just 92 such bodies for the USSR-republic ministries as compared to 361 before.

Changes also occurred in the primary element of management. In recent times production associations (PO's) and science-production associations (NPO's) have begun to develop intensively. At the present time they encompass 20 percent of all enterprises and account for 45 percent of industrial output. Eighty percent of the 3,600 existing PO's and NPO's were formed in the last six years. During the Ninth Five-Year Plan 1,760 associations were formed; in the first two years of the 10th Five-Year Plan more than 1,260 were formed. According to calculations by the sectorial ministries, the economic impact from reduction of the administrative apparatus will be about 190 million rubles. But work to cut back the multiple-level structure of management has not been carried through to the end. About 5,000 enterprises today, or 45 percent of those that have joined industrial associations, still preserve their independence.

Various ministries such as light, food, and meat and dairy industry and fishing have acknowledged the wisdom of the four-level system of management: USSR ministry (department) — Union-Republic ministry (department) — republic industrial association (ministry of an autonomous republic), administration of the executive committee of an oblast or kray (Soviet of Peoples Deputies) — production association, combine, enterprise.

The economic impact of the VPO's depends significantly on steps taken toward concentration and specialization of production, joining science and production, and bringing management closer to production. The decree of the CPSU Central Committee and USSR Council of Ministers entitled "Some Steps Toward Further Improvement of Industrial Management" observed that "when improving the organization of industrial management we must begin from the need to raise the level of concentration in production of the primary types of output of the sector, develop the scientific-technical base, and establish

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specialization and collaboration among the enterprises being joined on the basis of merging them into unified economic production complexes, scientific research organizations, and planning-design organizations to insure a significant rise in labor productivity, improvement in product quality, reduction in its prime cost, and improvement in other technical-economic indicators."

Organizing an efficiently operating VPO requires increased specialization based on elimination of duplication in production of identical output, modification of the production profile of the primary elements, conversion of small enterprises into narrowly specialized enterprises manufacturing a limited assortment of parts and assemblies or having similar industrial processes, and so on.

During their development the industrial associations are becoming relatively similar specialized subsectors, for example in machine building and food and light industries. The advantages of such specialized VPO's are apparent; it is easier to manage them than nonspecialized ones. The tractor plants subordinate to the PO's of the Ministry of Tractor and Agricultural Machine Building are more than 90 percent specialized in production of definite classes of tractors. In this case the average number of articles on the products lists of these enterprises is just 1.5.

Continued development of the VPO's involves rational redistribution of enterprises among subsectors and sectors with due regard for specialization. For example, at this point only five enterprises from other departments have been turned over to the USSR Ministry of Light Industry, while more than 5,500 light industry enterprises continue to be subordinate to other ministries and departments.

Specialization is more difficult to institute at those VPO's which have multiple profiles. At the VPO's of the Ministry of Machine Building for Light and Food Industry, for example, up to 58 articles occur on the products list of each of the 61 enterprises and often these articles are not similar in design and technology.¹¹

Production efficiency rises when production-management complexes of optimal size are established with specialization of primary production and centralization of semifinished parts, energy, repair, machine tool, and other auxiliary facilities. As the result of steps towards specialization and formation of production associations and other organizations at the middle management level, the volume of production of output and value of fixed productive capital per enterprise in the chemical machine building sector have doubled while the number of industrial production personnel rose just 15 percent.

Specialization of enterprises subordinate to industrial associations of the Ministry of Instrument Making, Automation Equipment, and Control

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Systems and the development of production facilities for parts, aggregates, and assemblies to be used in the sector will make it possible in 1980 to concentrate their production at 17 specialized enterprises and in 139 shops whose commodity output volume will be more than 10 percent of total production. At the industrial associations of this ministry, specialization together with other projected economic-technical measures will provide almost one-half of all growth in production capacities planned for 1980. This will make it possible to raise the use of production capacities to 97.3 percent and improve the shift coefficient of equipment operations.

A characteristic feature of the current phase of collectivization of production of the primary management element, industrial enterprises and production associations, is specialization of VPO's by object. In the electrical equipment industry, for example, the all-Union industrial association "Soyuzelektrokabel" specializes in cable products, VPO Soyuzelektroapparat in low-voltage equipment, "Soyuzelektromash" in electric motors, "Soyuzelektrotiyazhmash" in turbine and hydraulic equipment and large electric machines, while VPO Soyuzelektrotekhnologiya insures the development and production of highly productive industrial equipment and complex fittings for technical re-equipping of enterprises of the sector.

The most promising forums of specialization are by part and technology. These forms involve singling out as separate production facilities, in the first case, the manufacture of a part of particular articles and assemblies and, in the second place, certain industrial processes. Favorable conditions occur for the development of this kind of specialization in machine building, in particular for semifinished part, repair, and other auxiliary facilities.

Increasing production efficiency also depends on those industrial complexes which include fewer plants, but have a more limited products list. Specifically, standardizing yarn numbers and fabric types in textile production, specializing enterprises in the production of definite types of output, and organizing processing of low-grade cotton and waste at one of them to produce nonwoven materials and wadding will make it possible to raise the productivity of labor and equipment by 15-20 percent. Calculations show that losses from inadequate specialization are more than 10 million rubles each year from plants producing production machinery alone. The formation of the narrowly specialized VPO's necessary for this association offers an opportunity to liberate machine building from individual orders and produce intersectorial output.

The impact obtained by enlarging production volume and raising labor productivity is a factor in the growth of VPO economic efficiency. This is evidenced by the fact that the indicators of growth in output in the primary elements of the VPO, the production

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association and science-production association, are usually higher after the formation of the industrial complex than the average for the sector. Thus, the growth in volume of industrial output at production and science-production associations of the gas industry in the second year of association operations was 21.2 percent compared to the preceding year as against 16.9 percent for the industry as a whole; the corresponding figures in instrument making, production of automation equipment, and control systems were 18.7 and 14.9 percent. A similar situation has developed in tractor and agricultural machine building and light and food industry.

Growth in labor productivity at associations of the Ministry of Instrument Making, Automation Equipment, and Control Systems was 12.9 percent compared to 10.9 for the industry as a whole, while corresponding figures for the Ministry of Tractor and Agricultural Machine Building were 9.6 and 8.2 percent and in light industry the figures were 6.2 and 5.3 percent.

When determining the efficiency of VPO's, however, we must consider not just the results of production-management activity of the particular industrial complex, but also the national economic impact.¹² This follows, in the first place, from the requirements of the basic economic law of socialism, in the second place from the conversion of the USSR economy "into a single national economic complex that encompasses all elements of production, distribution, and exchange within the country,"¹³ and in the third place, from the need to solve the problem of quality. Producing output of improved quality is equivalent to production growth. The impact from it may accrue not just to the production associations that produce the output, but to the national economy as a whole.

At the Ministry of Tractor and Agricultural Machine Building the national economic impact is calculated as the sum of economic results obtained in the production of new equipment and in the use of this equipment during its service life. The indicators of economic impact in this ministry are reflected in norms and standards not only at VPO's but also for the primary element and the ministry as a whole. This is very important for implementing the decisions of the July 1978 Plenum of the CPSU Central Committee, which pointed out to economic managers of the machine building ministries that they were "working slowly and not hard enough on improving the quality of machines delivered to agriculture. Tractors and many types of machinery with obsolete designs that do not meet current requirements for productivity, economy, and reliability often continue to be produced."¹⁴ More than 270 new tractors and farm machines which meet the growing needs of consumers will be built at industrial associations during the 10th Five-Year Plan to solve this problem.

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The indicator of production efficiency at industrial complexes of the electrical equipment industry is based on the total national economic impact and consideration of full input. This makes it possible to use this indicator to evaluate the level of production-management activity for all elements of production in the sector, while at the same time insuring the unity of national economic and economic accountability interests.

In the machine tool industry the national economic impact is achieved by reorienting production to equipment that meets customer needs. This involves a fundamental revision of the production program. For example, in the Ninth Five-Year Plan general-purpose machine tools accounted for 88 percent of the output produced at the Krasnyy Proletary Production Association, which belongs to VPO Soyuzstankoprom; by 1980 less than one-quarter of the association's output will be such tools. More than two-thirds of its output will be machine tools with programmed control and multispindle automatic and semiautomatic machines with full adjustments. This will produce an economic impact of 75 million rubles for the national economy in 1976-1980. The reorganization at VPO Soyuzstankoprom is being carried out by mobilizing internal reserves, furthering specialization of primary production sectors, and optimal use of production capacities without additional investment.

Setting up scientific and planning subdivisions within a single industrial association makes it possible to join science with production efficiently, develop, incorporate, and introduce new industrial processes more rapidly, and follow a uniform technical policy in the subsector. The Ministry of the Chemical Industry, for example, formed 12 science centers that serve industrial complexes. The science centers perform research projects ordered by their ministry. The economic impact from the activities of each such sector is estimated at 250,000 rubles a year. The Ministry of the Petroleum Industry joins together 28 scientific research and planning institutes; 11 of them are oriented to solving large-scale general sectorial scientific problems and 17 are directly subordinate to production associations and work primarily on problems of applied, local significance. This structure has worked well. The role of the main specialized institutes has increased. They are responsible for choosing the chief directions of scientific-technical progress and they determine the subjects of research on the most important problems of the sector or subsector.

Most of the science-production associations also belong to VPO's and have a beneficial impact on shortening the "research - production" cycle. The experience of many science-production associations shows that the introduction time for scientific advances is reduced by one-third-one-half. For example, the length of the "research - production" cycle before formation of the Pishchepromavtomatika [Food Industry Automation] Science-Production Association was 2-3 years,

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and after it was 1-1.5 years; the corresponding figures for the Pozitron Science-Production Association were three and one years and for the Plastpolymer Association they are three and 1.5 years.

The economic experiments corresponding to the economic strategy of national economic development deserve special attention. Among them one can include the experiment with using long-term standards, management of scientific-technical progress, stimulation of output quality, comprehensive use of methods that promote satisfaction of customer and national economic demand for finished products, and new forms of material incentive for VPO employees. None of the experiments being conducted at VPO's, however, should be viewed in absolute terms. In each case the specific features of the subsectors represented by the middle management level must be taken into account.

Solving the problems associated with improving quality and raising efficiency, for example in the Ministry of the Electrical Equipment Industry, presupposes among other things implementation of specific programs to reduce inputs for production of output using what is called functional-cost analysis (FCA), which is expected to identify excess inputs. The process of conducting an FCA involves four stages: information (collection and systematization of technical-economic information on the object of analysis), analytic (identification of the functions, analysis and evaluation of them), creative (search for alternate, more efficient variations for performing the functions of the object of analysis), and recommendatory (preparation of recommendations to carry out the technical proposals).

The experiment showed that introduction of programs to reduce prime cost based on an FCA has a substantial economic impact. For example, the reduction of inputs for the production of A-3160 automatic switches allowed a savings of 1.18 million rubles (calculated for annual product output), 120 tons of rolled ferrous metals, 60 tons of nonferrous metals, 160 tons of pressed material, and three tons of silver. The first practical steps to formulate the FCA system at the Ministry of the Electrical Equipment Industry were taken in 1974 at the Elektrosvet Plant imeni A. N. Yablochkov and then later at the enterprises of VPO Soyuzelektroapparat. Early in the 10th Five-Year Plan the board of directors of the ministry decided to develop work on the introduction of FCA in all the VPO's by stages. First this right was granted for VPO's, with the remaining industrial associations covered by FCA later.

The purpose of further refinement of the VPO's is to turn the middle level of industrial management into a unit that can promote effective activities by the enterprises and organizations subordinate to it. The role of the VPO as the middle element in management of industrial production will grow steadily. In 1980 the volume of commodity

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output per industrial association will reach 905.6 million rubles as compared to 308.6 million rubles in 1975.

The long-range outlook for development of industrial associations is clearly reflected in the decree of the CPSU Central Committee and USSR Council of Ministers on improving the economic mechanism, envisioning an improvement in economic accountability methods of work at the all-Union and republic associations. Beginning with the 11th Five-Year Plan bonus payments to the employees of industrial associations will be made dependent first of all on fulfillment of quality indicators and obligations for delivery of output in conformity with contracts (orders). The ministries are receiving the right, based on the amount of profit remaining at their disposal and considering the distinctive features of production and the level of profitability, to establish appropriate standards for deductions from profit for all-Union and republic industrial associations.

To intensify the economic accountability of all-Union and republic industrial associations for the results of financial management activity and give them a greater interest in efficient use of material and financial resources, the decree plans, beginning with the 11th Five-Year Plan, to give industrial enterprises the right to establish, on the basis of the assignments ratified in the five-year plan, a stable standard for deductions from the profit remaining at their disposal with a breakdown by years. This part of profit will be used to finance investment, pay back bank loans, pay interest on them, form the unified fund for development of science and technology and other economic stimulation funds, and insure growth in working capital and other planned expenditures for development of the sector. In this way, favorable new opportunities are being created to increase the efficient operation of the middle level of industrial management.

FOOTNOTES

1. See EKONOMICHESKAYA GAZETA No 14, 1973.
2. "Such coordination of production and consumption at the 'middle level,'" remarks Yu. Subotskiy, "would be a complementary, but important method of balancing many proportions with the chief one, the centralized method of insuring proportionality." (Yu. V. Subotskiy, "Forms of Industrial Organizations: New Phenomena and Problems," SERIYA EKONOMIKI I ORGANIZATSII PROIZVODSTVA No 6, Zaniye, 1979, pp 60-61).
3. See T. S. Khachaturov, "Intensifikatsiya i Effektivnost' v Usloviyakh Razvitiya Sotsializma" [Intensification and Efficiency Under Conditions of Developed Socialism], Izdatel'stvo Nauka, 1978, p 210; L. I. Abalkin, "Konechnyye Narodnokhozyaystvennyye Rezul'taty: Sushchnost', Pokazateli, Puti Povysheniya" [Final

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National Economic Results: Substance, Indicators, and Ways to Increase Them], Izdatel'stvo Ekonomika, 1978, pp 52-53; Ye. K. Smirnitskiy, "Pyatiletka Effektivnosti, Pyatiletka Kachestva" [The Five-Year Plan of Efficiency and Quality], Politizdat, 1977, p 80; V. G. Lebedev, "The Economic Efficiency of Socialist Production as a Category of Political Economy" in "Effektivnost' Sotsialisticheskogo Proizvodstva. Kategoriya. Rezervy. Perspektivy Rosta" [The Efficiency of Socialist Production. Category. Reserves. Growth Outlook], Izdatel'stvo mysl', 1978, p 9.

4. The efficiency of public production is planned on the basis of principles that are common to all elements of the national economy and measured by comparing the results of production (effect) with inputs or resources used (see "Metodicheskiye Ukazaniya k Razrobotke Gosudarstvennykh Planov Razvitiya Narodnogo Khozyaystva SSSR" [Methodological Instructions for Development of State Plans for Development of the USSR National Economy], Izdatel'stvo Ekonomika, 1974, p 33).
5. V. Kuznetsov observes that "the measurement, analysis, and planning of the economic efficiency of production at the level of the sector, enterprise, and association is the weakest point in the theory and practice of determining economic efficiency" (V. M. Kuznetsov, "Kollektiv i Effektivnost' Proizvodstva" [The Collective and Production Efficiency], Politizdat, 1977, p 13).
6. In the "Methodological Instructions" ratified by USSR Gosplan, it is observed in this connection that "the economic efficiency of public production is not planned according to some one indicator, but rather by a set of indicators, because production efficiency is influenced by a number of factors and only a system of indicators that complement one another will permit correct conclusion concerning the level of efficiency" (p 33).
7. Academician T. Khachaturov observed that "one need not be embarrassed, as some authors are, because different indicators of the impact and of inputs must be used at each level. The only important thing is that these indicators must in any case reflect the direction and scale of change in efficiency" (VOPROSY EKONOMIKI No 6, 1975, p 131).
8. Lenin, V. I., "Polnoye Sobraniye Sochineniy" [Complete Works], Vol 6, p 99.
9. This aspect of the problem corresponds to the process of management of a sector or subsector encompassing stages which are adequate to the principal management functions. These include: establishing goals, forecasting, planning, operational management and monitoring.

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10. The development and strengthening of VPO's depends on practical utilization of the advantages inherent in the new industrial-organizational structure. If this is not done the formation of industrial complexes will be nothing more than a change of "signs," which alters very little in the makeup of production and methods of industrial management. These demands found reflection in the USSR Constitution, which reads: "The state insures... an increase in the efficiency of production and quality of work" ("Constitution [Basic Law] of the USSR," Politizdat, 1977, p 11).
11. "Non-Profiled production does not at all mean non-specialized and inefficient production. This is illustrated, for example, by the fact that the prime cost of certain types of output produced in non-profiled sectors does not at all exceed the level of cost in the specialized sectors" (Yu. V. Subotskiy, "Razvitiye Ob'yedineniy v Promyshlennosti" [Development of Associations in Industry], Izdatel'stvo Nauka, 1977, p 127).
12. Academician T. Khachaturov observes: "These indicators (which measure the efficiency of public production most correctly — A. N.) should insure a national economic approach to evaluating efficiency, whether we are speaking of the economy as a whole, particular sectors, or individual enterprises. This approach presupposes consideration of both the direct effect and also the indirect effect which arises on the basis of production inputs" (T. S. Khachaturov, "Intensifikatsiya..." op. cit., p 213).
13. "Constitution (Basic Law) of the USSR," p 11.
14. EKONOMICHESKAYA GAZETA No 28, 1978, p 9.

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INVESTMENT, PRICING, BUDGET, AND FINANCE

INCREASED USE OF CREDIT INCENTIVES IN INVESTMENT EXPECTED

Moscow VOPROSY EKONOMIKI in Russian No 4, Apr 80 pp 61-71

[Article by P. Podshivalenko: "Enhancement of the Role of the Credit-Financing Mechanism in Raising the Efficiency of Capital Investments"]

[Text] The decree of the CPSU Central Committee and USSR Council of Ministers entitled "On Improving Planning and Strengthening the Influence of the Economic Mechanism on Increasing Production Efficiency and Work Quality" gives an important place to measures aimed at speeding up the activation of production capacities and projects, at a sharp reduction of new construction starts so as to bring the volume of unfinished construction within the established allowances in coming years, at raising the efficiency of capital investments, and at guaranteeing a further improvement in the technological pattern of investment and a rise in the relative share of outlays for equipment.

In this context we should identify a number of new principles in planning which bear directly on the financing of construction and on control by the banks. First of all, lists of new construction starts and also lists of enterprises scheduled for reconstruction and expansion will be drafted in 5-year plans in order to ensure continuity in the validity of capital construction plans.

Itemized lists (with breakdown of assignments by years) which will not be altered over the entire period of construction are compiled on the basis of lists of construction projects, ceiling amounts of capital investments and of construction and installation work, project plans and estimates, and allowed construction times. They are approved in much the same way as the lists.

Ministries figuring as clients and ministries figuring as contractors are both involved in the procedure to break down by years the amounts of construction and installation work in the drafts of the itemized lists. The ministries are granted the right to issue the relevant orders to their subordinate organizations. The amounts will be distributed by years in such a way as to ensure a uniform pace on the part of construction organizations

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and the spadework required by the technology within the limits of the deadlines given in the plan for activation of the capacities and projects and so as to adhere to the allowed construction time.

Second, the stability of the plan and the realism of fulfilling it are guaranteed by a number of measures which are binding on clients, contractors and project planning, credit financing and other organizations and institutions. For instance, the ceiling amounts of capital investments set forth in the 5-year plan are not subject to revision in annual plans. The itemized lists are to be unalterable over the entire period of construction. If in the previous year less work was done on the construction project than envisaged in those plans, the construction organization must make up the lag in the following year. Corrections in the itemized lists are allowed only when plans are revised in order to accommodate improved equipment and progressive technology. In these cases the estimated cost can be revised only within the limits of the ceiling amounts of capital investments and construction and installation work assigned to the ministry or union republic for the given year. USSR Gosnab has been issued a recommendation that in 1981 it complete the conversion of construction sites included in the state plan to aggregate supply of materials through regional material and technical supply agencies on the basis of orders of construction and installation organizations in accordance with the need for them as stated in plans and estimates.

Third, ongoing production and new construction will be planned as an integrated whole. Moreover, priority is not to be given to new construction, but to retooling and reconstruction, which makes it possible to expand production capacities in a shorter time and with smaller (by 8-10 percent) capital investments. It is also important to adhere to the specified estimated cost of enterprises and installations. Implementation of the planning procedure outlined in the decree should be a formidable obstacle to the scattering of capital investments, to a rise in the estimated cost and to augmentation of unfinished construction.

Performance of measures to improve quality of plans and estimates and to get them to construction sites on time is playing a large role in solving the problem of increasing the efficiency of capital investments.

The decree calls for tightening requirements concerning the technical level and quality of products of machinebuilding. There are plans to replace outdated standards pertaining to machines and equipment and to include in the new standards requirements that guarantee lower product weight, reduced fuel and energy consumption in the process of operation, and also standardization of parts, assemblies and instruments. In 1979 and 1980 there must be an evaluation of the technical level of the machines, equipment and other industrial products manufactured by the industrial sector. Thereafter this reassessment is to be done periodically. Procedure and intervals are to be established for intradepartmental expert evaluation of the technical-and-economic indicators of the most important types of products and

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manufacturing processes in the stage of the technical assignments and the final results. In 1979 and 1980 the transition is to be made toward planning the production of equipment on an expanded list in units of measurement that reflect more fully its productivity and other economic attributes. Indicators in tons can be used only for computational purposes.

Plans for project planning and surveying and for development of the network and material and technical facilities of project planning and surveying organizations are to be drafted and approved in order to speed up the project planning and construction of projects. The assignments of this plan are to be linked to the capital construction plan.

Design documentation will contain data on the need for materials, fabrications and components. The estimated construction cost of each phase of the enterprise is approved within the limits of the overall estimated cost of construction, which is determined in the technical-and-economic justifications. Monitoring the adherence to these requirements is to become one of the elements the banks look for in examining the plans and estimates. During the 5-year period estimate prices are to remain stable, which creates a stable basis for planning capital investments and for strengthening cost accounting (khozaschet) in construction.

Preparation of standard and individual designs for construction of enterprises in the industrial sector and other sectors of the economy and also of housing projects and complexes and public works will as a rule be based on a competition with the extensive participation of highly qualified specialists.

Production associations for construction and assembly are becoming the principal cost-accounting unit in construction work, and this function is performed only in certain cases by trusts. The creation of production associations for construction and assembly will facilitate more elaborate specialization in construction work. The construction organization will as a rule be a complex of production units, including pilot production operations and other subdivisions which previously were independent enterprises and economic entities.

The role of the producer of the end product and the functions of the principal cost-accounting unit are passing entirely to the production associations for construction and assembly, which carry on their activity on the principles of intraoperational cost accounting. This is a radical transformation of the system for management of construction work, which beginning in 1938 was based on the trusts and had not undergone any appreciable changes.

Cost accounting is also being introduced into project planning, scientific research, planning and designing, and other similar organizations. One of the preconditions is transition to a contract basis and delivery of the finished product to the client. The transition of project planning

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organizations to cost accounting signifies stronger control by the ruble over fulfillment of targets for commodity output, profit and labor productivity. This will be a great help in the effort to get plans and estimates to construction sites on time, to improve their quality and to reduce the estimated construction cost.

The team job contract will be the principal form of worker organization and incentives at enterprises and construction projects. At the present time 740,000 workers in the building trades, 20,000 truck drivers and nearly 12,000 machine operators are working in teams. In 1975 they did about 6 billion rubles of work, and in 1978 approximately 16.5 billion rubles (30 percent of all contract work). The results of a survey of the activity of 1,000 cost-accounting teams indicate the importance of expanding the team job contract. Project construction times were reduced by 17-20 percent, labor productivity rose 20-25 percent, and the saving (against the calculated cost of the work done) was 3-4 percent. Almost all projects were evaluated at "excellent" or "good" at the time of acceptance. However, the share of the team job contract in the productive activity of construction organizations is still low.

Beginning with the 11th Five-Year Plan formation of economic incentive funds (the material incentive fund, the fund for social welfare and cultural programs and housing construction, and the production development fund) in production associations (enterprises) will be governed by principles whose purpose it is to develop the economic initiative of working collectives and to guarantee broader rights to cost-accounting organizations. Stable rates used in forming the funds are to be the basis for this; their levels will differ from year to year of the 5-year plan. When production associations (enterprises) adopt and fulfill counterplans exceeding the targets of the 5-year plan for the particular year, the transfers to the funds are increased. Should the targets of the 5-year plan not be fulfilled, the transfers to economic incentive funds are made at lower rates. The funds may be spent only for the specified purpose, but monies remaining in them may be carried over to the next year and are not subject to confiscation by superior and other authorities.

Production associations and enterprises themselves draft and approve measures (financed from the production development fund) for mechanization and automation, for replacement and modernization of equipment, to improve the organization of production and work, as well as other retooling measures.

On the basis of the reports and recommendations of production associations (enterprises) outlays for these measures are included in their full amount in the plan of ministries and departments and are given priority in the allocation of capital investments, physical resources and amounts of contract work (within the limits of the ceiling amounts of capital investments, physical resources and contract work set by ministries and departments in 5-year plans and the breakdown by years). In order to carry out the measures which will become necessary during fulfillment of the annual plan, the

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relevant outlays will be made over and above the ceiling amounts of state capital investments from unused resources of the production development fund and above-plan transfers to that fund. A similar procedure has been adopted for furnishing capital investments, physical resources and amounts of contract work to cover outlays made from the resources of the fund for social welfare and cultural programs and housing construction.

Before these and other measures were drafted, they were first verified by experiment. For example, the Belorussian Ministry of Industrial Construction and Ministry of Installation and Special Construction Work have since 1976 organized their activity so that the economic mechanism tied the interest of every construction worker with the interests of the team and construction subdivisions, including production associations and ministries. Every production unit functions on the principles of pay-as-you-go, that is, covers its own expenses from the income received, achieving thereby a larger absolute amount of cost-accounting funds and a larger share of profit becoming a revenue of the state budget. The planning procedure and contract relations have been altered correspondingly.

The activity of the ministry as a whole and of each construction subdivision is evaluated according to results in fulfilling the program for project completion, the plan for the commercial output of construction, profit and the rise of labor productivity. In all cases deductions going into the budget are an invariable quantity and are made regardless of the financial results of operation.

Now other organizations are also operating after the pattern of enterprises in Belorussian SSR. The data reflecting the performance of these organizations confirm that they have the best figures on reduction of construction time, reduction of the number of projects under construction at the same time, and the rise of labor productivity and profitability. For instance, the number of projects under construction at one time for the Belorussian Ministry of Industrial Construction dropped 7 percent between 1976 and 1978, and the drop for the Lithuanian Ministry of Construction was 13 percent. To be sure, the mechanism has not fully stimulated the activation of capacities (though the level of activation was higher than for construction as a whole), since the indicator of fulfillment of the plan for the commercial output of construction was not directly related to the indicator of acceptance of capacities and projects for operation. In the Belorussian Ministry of Industrial Construction and Ministry of Installation and Special Construction Work and other departments which took over their method, the commercial output of construction was recorded on the basis of the documents of state acceptance commissions, without waiting for their approval. But not infrequently the entities whose approval is required submit requirements related to incomplete performance of assignments set forth in the project plan. The work not done must be completed within 6-12 months. It turned out that the plan for the commercial output of construction--an important success indicator--was fulfilled even when the assignment for activation was not. This has to be taken into account when the new system is

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introduced. Financial and credit instruments are given a large place in the system of measures to strengthen and further develop cost accounting. The economic accountability of production associations (enterprises), all-union (republic) associations and ministries for the results of economic operations and financial performance is being strengthened, and at the same time they will be more motivated to make the most efficient use of physical and financial resources, to improve utilization of productive capital and to economize on physical resources. The rates of the charge on productive capital have as a rule been set at 6 percent. Moreover, the charge on above-allowance inventories not covered by credit financing and uninstalled equipment must be paid from the profit left to the associations, enterprises and organizations. At the same time, when the plan for the volume of production and profit is fulfilled with a smaller value of capital than envisaged in the plan, this saving on the charge for capital is left to their disposition. The amounts of payments into the budget are reduced by that amount. It is also important that 50 percent of above-plan profit (not counting various premiums) is left at the disposition of ministries, associations and enterprises. Should the plan for accumulation of profit be overfulfilled by more than 3 percent, 25 percent of the amount of the overfulfillment is left at their disposition, while the remainder goes into the budget.

When there is a shortage of "own" funds to finance capital investments on projects for productive purposes, provision is made in the 5-year plans of ministries, associations and enterprises to enlist bank credit and appropriations from the budget. The banks are required to furnish continuous financing of state capital investment projects for productive purposes. The basis of this procedure are the itemized lists covering the entire period of construction. The approved estimated cost is to serve as the ceiling amount on the release of funds. Continuity in financing is achieved by means of credit.

The financing of capital investment projects from the "own" funds of ministries, departments, associations and enterprises, envisaged by the decree, makes the size of investments directly dependent on the financial results of their performance. The use of bank credit when "own" funds are lacking makes these entities more responsible for the growth of accumulation, for timely mobilization of funds and for their economical expenditure.

Even now many enterprises and ministries figuring as clients have begun to make more extensive use of credit. For instance, in 3 years of the 10th Five-Year Plan USSR Stroybank has issued long-term credits exceeding by 2.4-fold the amount granted over the corresponding period of the Ninth Five-Year Plan. Outstanding credit has reached the amount of 26 billion rubles.

Credit also figures as an incentive measure, a means of stimulating adoption of highly effective measures. It will be granted to cover costs of developing science and technology not envisaged in the plan, the loans

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(including interest) to be repaid from the unified fund for development of science and technology within 2 years from the date when they were made. The credit extended is covered by a guarantee from ministries and departments or all-union (republic) associations. The banks may extend credit to production associations (enterprises) and organizations to carry out highly effective measures (over and above the ceiling amount on state capital investments) to manufacture a new product and to improve the quality of products produced, as well as to expand the production of consumer goods and to improve consumer services to the public, if the outlays are repaid from the additional profit within 2 years. The loans and interest are repaid within that same period. Up to 50 percent of the turnover tax on sales of consumer goods manufactured by performing the measures covered by the credit may be taken into account in determining the period for repayment of the costs and as a source from which to repay the credit.

Introduction of settlements between clients and contractors for enterprises entirely completed and put into operation and for complexes, phases and facilities capable of independent operation that have been prepared for the manufacturing of products and the rendering of services is a typical feature of the effort to strengthen the role of financial and credit instruments. The following figures indicate the relationship among the forms for selling the product of the construction industry (in percentage of the total):

	<u>1976</u>	<u>1978</u>
For construction and installation work completed on the project	50.1	60.0
For two stages (substructure, above-ground portion)	9.0	6.0
For three stages (substructure, building, installation of equipment)	6.4	5.2
For four or more stages of the project	30.7	26.3
On the basis of percentage of completion (for the gross amount of work done)	3.8	2.5

Consequently, more than 71 percent of construction and installation work is paid for at the present time for completion of all work on the project or in two or three stages (20 percent at the end of the Eighth Five-Year Plan). It is evident from the table that a process is taking place in which the terms realized output and finished output of construction organizations are coming considerably closer together. But in this case we can speak of the finished product only provisionally, the main reason being that construction and installation work on projects for productive purposes are paid for independently of the actual activation of capacities.

Settlement for projects and for major stages of the work have enhanced the motivation of contractors and clients to concentrate capital investments on a narrower front of operations and to speed up fulfillment of the project completion program. When the contractor changes methods of performing the

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work, substitutes materials with the client's consent, improves the structural elements and design features (when this makes construction cheaper than the estimated cost and does not affect the strength and performance characteristics of projects and structures), settlement between client and contractor (regardless of the form it takes) is made at their cost as given in the estimate. The entire saving is credited to the construction organization for purposes of fulfillment of the plan and assignments for reduction of production cost. The procedure adopted for settlement, along with other factors, is helping to speed up the turnover of capital investments. This can be judged from the following figures (projects for productive purposes):

	<u>1970</u>	<u>1974</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Average time capital remains in the form of unfinished construction (in months)	15.8	14.8	14.2	13.3	13.3
Settlement for the project as a whole (in percentages of all work paid for)	5.0	24.0	36.0	43.0	47.0

As settlement for the project becomes more common, construction time is reduced, and capital spends less time in the form of unfinished construction. In future work is to be paid for at the estimated cost of the commercial output of construction. This measure strengthens the tendency which has been outlined and at the same time enhances the accountability of clients and contractors: after all, the project (complex, phase or enterprise capable of independent operation) must not merely be completed, but must in fact commence productive activity.

In certain industries it has been seen advisable for a gradual transition to be made to construction of enterprises (structures) by contractors at the full cost as set forth in the estimate accepted by the general contractor. The client is to be delivered finished enterprises (structures) on what is called a "turnkey" basis.

This kind of settlement has already been in effect for a number of years. If work done in essence on a "turnkey" basis, that is, projects, independent complexes, phases and enterprises as a whole for which settlement is made after approval of the certificates of state commissions accepting them for operation, are identified in the total volume of payments for projects as a whole, then we get the following figures (in percentage of the total amount of work paid for):

	<u>1975</u>	<u>1978</u>
Total paid on a "turnkey" basis	19.6	29.5
Breakdown:		
On construction of productive facilities	2.5	7.0
On construction of housing and public works	48.0	65.0

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Thus payments on a "turnkey" basis still represent a negligible amount in the volume of work paid for in construction of production facilities, whereas in construction of housing and public works they are already dominant. Success in fulfillment of assignments for activation of facilities, for reduction of construction time and for reduction of unfinished operations has been far greater in construction of housing and public works than in construction of production facilities. The complexity of the projects involved, the large number of individual designed features, the unreliability of the estimated cost and a number of others are usually among the causes holding back adoption of delivery of products on a "turnkey" basis for this type of construction. One of the important aspects of the decree of the CPSU Central Committee and USSR Council of Ministers is that implementation of the measures contained in it will make it possible to eliminate these causes. Broad room will thereby be opened up for adoption of everything progressive which science has accumulated and developed in the field of improving cost-accounting relations in the construction industry.

But even in the present situation settlement on a "turnkey" basis for projects for productive purposes yield a large gain in terms of time. For example, in 1977 an independent power generating complex of the Uglegorskaya GES was put on line in 12 months instead of the 18 allowed. In 1978 major phases were put into production ahead of schedule at the 11th Poltava and 5th L'vov sugar mills.

At present installation work is the responsibility not only of specialized organizations of construction departments, but also of machinebuilding plants which are the suppliers of equipment. The plants figuring as general suppliers in the system of aggregate delivery of manufacturing equipment, production lines, installations, and mechanization, automation, control and monitoring equipment will be paid for the entire set of equipment delivered or installed. Consequently, a third aspect of contract relations is emerging--the general supplier, who will also figure as the contractor. This is an important step forward in developing the contract method of doing construction.

Adoption of aggregate deliveries of equipment and its installation by the plants which are the manufacturers are making them more interested in the end results and are making them more accountable for scheduled and complete delivery of equipment to construction projects. For example, the Ministry of Chemical and Petroleum Machinebuilding began in the Ninth Five-Year Plan to furnish complete production lines to construction sites, performing the role of a general supplier. The ministry furnishes enterprises under construction equipment in a high state of factory readiness that has been entirely made up (including apparatus, mechanisms and instruments manufactured by other industries).

There are already organizations applying similar methods of operation on a broader scale. The reference here is to the complete-unit (blochno-komplektnyy) method of construction. The complete units referred to are

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finished pumping, compressor or repumping stations, boiler rooms and other installations for product pipelines, which are entirely manufactured off-site in units and sets, including their equipment, and they are then installed along the line. In Tyumen' a large experimental association, Sibkomplektmontazh, has been created to concern itself exclusively with manufacturing these units and with construction based on such units. Its components include project planning offices, plants manufacturing the units, and mobile installation columns. In essence the unit sections produced by the association are a new variety of a product of machinebuilding. The association itself is an improved type of industrial enterprise producing machines so as to take into account maximum readiness for installation at the construction site and then completing all the necessary related work on the spot. For example, this was the method used to build the Demyansk pumping station for repumping petroleum. The station was manufactured at the plant in Tyumen' in 2 months, it took 8 days to deliver it to the site for installation, and installation took 3 days. One of the large boiler rooms was put into service at the same place in 3.5 months, a job that would ordinarily take at least 2 years. Use of this method is making it possible to raise labor productivity 6-8-fold at construction sites.

In this case the end product of machinebuilding is equipment manufactured and prepared for installation under off-site conditions, installed in the projects under construction and tested. The spread of the complete-unit method will make it possible to considerably expand the scope of activity of the bank and its institutions.

In recent years credit has been developing more and more in financing partial performance of construction and installation work. As settlements have been consolidated more and more and intermediate payments have been gradually eliminated, the amount of this credit both in absolute and relative terms has been increasing. For instance, it was 3.2 billion rubles in 1970, 26.2 billion rubles in 1975 and 46.2 billion rubles in 1978. Credits to cover unfinished construction work represent 50 percent of the total amount of short-term loans issued by Stroybank.

But until recently the overwhelming proportion of construction in process (up to 85 percent) was financed by advances from clients, which in essence represent a unique form of commercial credit, whereas the relative share of bank credit was only slightly more than 10 percent.

With the transition to settlement on the basis of the estimated cost of the commercial output of construction clients no longer issue advances to contractors to cover the cost of the unfinished construction and installation work done. Until the planned deadline for delivery of the enterprises or independent complexes, phases and structures on which construction has been completed, these expenditures will be financed with bank credit. Funds which clients have available because of the transition to settlement without intermediate payments are to be used as a source of this credit financing. The standard allowance for expenditures on construction in process

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(in the period between dates for arrangement of credit) is up to 10 percent of the annual amount of contract work done by the contractors themselves. This allowed amount will be financed with the resources of the contractors and with bank credit insofar as those resources are insufficient.

The costs of the contractor on "turnkey" projects--both for construction and installation work and also to pay for equipment which has arrived, are incurred from commencement of construction of enterprises or projects and until their delivery to the client are reimbursed with bank credit. An experiment with this type of operation has been conducted in the construction of 30 enterprises and projects in various industries, and 21 contractors are involved in conducting it. In 6 years (1972-1977) 19 enterprises were put into operation, 12 of them (63 percent) on schedule or ahead of schedule. Construction of similar enterprises built in the conventional way has as a rule run over the allowed period of time. For example, a plant for the primary processing of raw hides at Ostashkov in Kalininskaya Oblast was built in 48 months instead of the 12 allowed, whereas the same kind of plant at Narva in Estonian SSR, whose construction was done as part of the experiment, was put into operation 1 month before the end of the allowed construction time.

If general suppliers deliver sets of equipment to construction sites, then bank credit is extended to the supplier of equipment until the planned date for completion of the delivery of the entire set or its installation. This is an important addition to the experiment of the Ministry of Chemical and Petroleum Machinebuilding. The point is that in making up the sets of equipment this ministry was paid as in the past not for the entire set, but for each piece of equipment separately, and it did not assume obligations for installation.

Enhancement of financial accountability of production enterprises and organizations for performance of contractual obligations and for punctual delivery to consumers of products in the necessary assortment and quality is now taking on particular importance. The penalties envisaged by the law or contract for violation of conditions under delivery contracts must be invoked without mutual clearing; the principal criterion for evaluating the performance of material and technical supply agencies and the principal indicator for awarding bonuses to the personnel of these organizations is to be fulfillment of business contracts and delivery plans; transportation organizations are to be made financially accountable for nonfulfillment of shipment plans to which they have consented.

A procedure under which banks will extend loans to cover demands for payment a customer has accepted when they come due and he temporarily lacks funds is being introduced to ensure punctual settlement for products delivered in accordance with the contracts concluded and to enhance the responsibility of customers for observance of payment discipline. The loans are extended in the customer's name, who is to repay them within 60 days in the order of payment established for payment of commodities and materials.

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Interest is charged on the loans at 5 percent per annum, which is the same interest paid the banks on other loans when repayment is delinquent. This indicates that these loans are irregular, and their extensive use should attract the attention of superior authorities, ministries and departments and bank institutions, so that they can discover why associations, enterprises and organizations are unable to make payments and what sort of aid they need. One of the forms of this effort should be a compulsory on-the-spot audit of the financial activity of contractors, extending them temporary financial aid, strengthening these organizations by supplying them material and technical and other resources, and elimination of the causes standing in the way of normal operation.

When the planned deadlines for which the loans are issued (to pay for equipment, to cover costs on construction in process, to cover payments, and so on) are not met, higher interest will be charged on any further credit financing of production associations, enterprises and organizations. This will strengthen still more the role of bank credit in ensuring the continuity of settlements in the national economy and in punctual correction of shortages causing nonpayment.

What conclusions can be drawn from these radical changes which are being made in the procedure for budget financing, credit financing and settlement?

Continuity of the construction process is ensured by continuous planning, supply, budget financing, credit financing and settlement. Budget financing and credit financing are to be so structured as to stimulate construction organizations overfulfilling planning targets or to extend aid to them in cases when they have temporary financial difficulties.

Everything must be done to adopt progressive forms in settlement for completed work. One of the important peculiarities of this type of settlement is that its adoption depends on more extensive use of credit instruments, which have an impact both on the very system of settlement and also tend to strengthen their role in shortening construction time and the turnover time of capital investments. This applies equally to long-term and short-term credit.

The sphere of application of long-term credit is expanding considerably, but the role of short-term credit financing is growing particularly. It is obvious that extension of credit will increase 4-4.5-fold and outstanding indebtedness 3.5-4-fold, assuming, of course, that the turnover of capital investments is speeded up. In this connection we should emphasize the importance of mobilizing resources used for credit financing. The point is that one of the principal sources of credit financing is the repayment of loans issued previously. That makes it indispensable to collect them strictly on schedule. The funds of clients made available in connection with the transition to settlement for the completed commercial output of construction must be enlisted completely and punctually for credit financing. The share of the "own" funds of enterprises and organizations will

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increase in the financing of capital investment projects—profit and depreciation. It is therefore impermissible that there be any failures in fulfillment of the plan for enlistment of these funds.

There is an evident need to reassess the system for constant offsetting of mutual indebtedness. Under the new conditions this procedure can be organized on the basis of the production associations for construction and installation. Punctual canceling of mutual indebtedness between subdivisions of associations will promote mobilization of funds and prevention of non-payment.

There is also a need to ensure that contractors are given accounts for completed work in the full amount and punctually so that indebtedness is not allowed to arise among clients, contractors, subcontractors and their suppliers. Greater attention must be paid to elimination of above-allowance inventories of equipment and other commodities and supplies.

Doing everything to increase the efficiency of operation of the construction industry is a decisive element in fulfillment of assignments for activation of capacities and projects, for raising labor productivity and for increasing profit.

The construction industry is a highly profitable sector of the economy. Contractors cover their entire production costs and the formation of the necessary funds from their income. The absolute amount of profit in 1977 was 5.4-fold greater than in 1965, and the volume of contract work was twice as great, that is, profitability had increased because of improvement of the qualitative indicators of the performance of contractors.

But in recent years an appreciable deterioration has occurred in the work of contractors. Between 1975 and 1978 the level of profitability dropped 2.5 points for contractors as a whole. More than 40 percent of primary organizations are not fulfilling plans for accumulation of profit, and more than 25 percent of them are operating entirely at a loss. The result of all this is that the construction industry is falling short 400-500 million rubles of profit every year behind the plan. A substantial portion of the losses pertain to very small organizations with an annual volume of operations of less than 10 million rubles.

The plan for the volume of contract work is being fulfilled and even overfulfilled by construction ministries and departments. Large above-allowance stocks of materials, fabrications, and products are lying in the warehouses of contractors in an amount exceeding 500 million rubles. Clients have much unused equipment, and project planning organizations have a great deal of project planning documentation. Nevertheless, contractors are not fulfilling assignments for activation of capacities and projects, by and large they are not meeting assignments for the project completion program established for particularly important construction projects, compensation projects, and also projects being built with complete sets of imported

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equipment. All this is tending to increase the amount of unfinished construction. The entire work of the banks to monitor the performance of contractors needs a radical restructuring, and one such way is to make the most effective use of financial and credit instruments.

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INDUSTRIAL DEVELOPMENT AND PERFORMANCE

SURVEY OF CURRENT STAGE OF SOVIET ECONOMY

Moscow VOPROSY EKONOMIKI in Russian No 4, Apr 80 pp 72-82

[I. Pogosov economic survey: "The USSR Economy at the Current Stage"]

[Text] The current stage of the economy's development is characterized by the decisive transition to intensive methods and qualitatively new levels and scales of production enabling us to accomplish the tasks of the creation of communism's material-technical base, insure a continuous growth in the working people's well-being and achieve new successes in the economic competition with capitalism.

Big successes were scored in 4 years of the 10th Five-Year Plan in the development of all sectors of the economy. "It may be noted with satisfaction," L. I. Brezhnev said at the CPSU Central Committee November (1979) Plenum, "that, implementing the decisions of the 25th CPSU Congress, we have progressed considerably since the start of the five-year plan in the development of the economy, a further upsurge in the people's material and cultural living standard and the strengthening of our motherland's defense capability." The gross social product in 1979 was in excess of R1 trillion, and fixed production capital at the start of 1980 amounted to R1.1 trillion, including over R500 billion in industry. In the 4 years national income used for consumption and accumulation increased 16.2 percent and industrial output 20 percent, and the average annual agricultural product increased 9 percent compared with the level of the Ninth Five-Year Plan.

The basic indicators of the USSR's economic development in 1979 are characterized by the following data (in billions of rubles);

[Table on following page]

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	Increase in 1979 compared with 1975		
	1979	Total	Annual average
National income used for consumption and accumulation	430.9	58.5	14.6
Industrial output	606	101	25
Capital investments	130.9	20.1	5
Commissioning of fixed capital	120.4	12.2	3
Retail commodity turnover	252.2	38.3	9.6
Actual consumer services	7.3	1.8	0.45

In the 10th Five-Year Plan capital investments in the development of the economy have exceeded the five-year plan target and have amounted to over R500 billion, and approximately 1,000 large-scale state industrial enterprises have been commissioned. Approximately R460 billion of fixed capital have been commissioned in this period. More than two-thirds of the fixed production capital at the country's disposal as of 1980 was created in the previous decade. Capacities were introduced in 1976-1979 for the mining of 75 million tons of coal and the production of 7 million tons of finished rolled ferrous metal, 29 million tons of mineral fertilizer (in conventional units), 10 million tons of cement, 1 million tons of synthetic resins and plastics, 127,000 trucks and so forth.

The consistent implementation of the policy of the creation of communism's material-technical base and the upsurge of the people's material and cultural living standard are based on an increase in production efficiency, a reduction in the socially necessary expenditure on production and an improvement in the production relations of the mature socialist society. Social labor productivity increased 13.8 percent in 1979 compared with 1975, including 14 percent in industry. The labor productivity growth in 1976-1979 secured a labor saving in the national economy of 12.5 million persons, particularly in industry--more than 4 million persons. Some three-fourths of the increase in national income and industrial output were obtained in this period thanks to labor productivity growth, and the increase in the amount of construction and installation work constituted 97 percent of this. There was a reduction in the materials-intensiveness of the social product in 1976-1979, as a result of which the saving of raw material, goods, fuel, energy and other subjects of labor amounted to approximately R10 billion. There was a fall in the output-capital ratio in the said period. But the increase in the capital-output ratio was compensated by the savings thanks to the growth of social labor productivity and the reduction in material outlays.

The successes in the development of the economy secured an increase in the consumption fund not only in absolute terms but also per capita and enabled us to implement the social program outlined for these years by the 25th

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CPSU Congress. Real income per capita increased 13.8 percent; the average monthly wage of workers and employees increased 12.1 percent and the remuneration of kolkhoz members 24 percent, and the payments and benefits to the public from the social consumption funds increased by R19.9 billion and amounted to R110 billion in 1979. The upgrading of the wage rates and salary schedules of workers of the nonproduction sphere was completed in 1979 in accordance with the decisions of the 25th CPSU Congress. The wages of 31 million workers of these sectors was raised as a result. Measures were also implemented in the 10th Five-Year Plan to increase the remuneration of a number of categories of workers of the coal and shale industry, ferrous and nonferrous metallurgy, the textile industry, construction, agriculture, railroad transport and certain other sectors. Retail commodity turnover in comparable prices increased 18 percent, and consumer services by one-third. Housing was built on a large scale. Some 8.3 million well-appointed apartments with a total area of 423.3 million square meters were built, 41 million people improved their housing conditions and there was an extension of the network of high schools, VUZ's and medical and cultural establishments.

The CPSU Central Committee November (1979) Plenum emphasized the need to insure the dynamic and proportional development of social production and to increase work efficiency and quality at all levels of the economy. Particular attention must be given to the growth of labor productivity, an acceleration of production intensification on the basis of scientific-technical progress and an improvement in planning and management of the economy.

An increase in social production efficiency depends on an increase in the technical level of the fixed capital. Accumulation of the means of production and their intelligent use is the basis of our economy's constant progressive development. With the accumulation norm that has evolved fixed production capital in the USSR will double every 10 years. In industry 80-90 percent of the entire output increase over the five-year period will have been achieved thanks to the introduction of new and the modernization of old enterprises and facilities. Under the conditions of the intensive development of the economy the growth of fixed capital is not a simple increase in the quantity of means of labor but the introduction of new, more refined fixed production capital which creates conditions for an upgrading of the organic structure of production, the capital-worker ratio and labor productivity. For this reason a high growth rate of the economy requires an acceleration of scientific-technical progress.

Machine building, whose scale and structure determine the development of other sectors of the economy, has a leading role in the practical introduction of the achievements of science and technology. An appreciable proportion of all industrial-production personnel is employed and a powerful test-design and experimental base has been commissioned in this sector. More than one-half of the pool of machine tools and forging and pressing machinery has been created in the last 10 years.

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Instrument making, machine-tool building, machine building for animal husbandry and fodder production, the radioelectronics industry and others are developing at a more rapid rate than industry as a whole. The five-year plan quotas for the production of agricultural machinery, machinery for animal husbandry and fodder production, instruments, means of automation and computer equipment, oil industry equipment and a number of their products for 1979 were exceeded in this year.

In the 4 years of the 10th Five-Year Plan the manufacture of 3,400 new types of machinery and equipment, instruments and goods was assimilated annually on average compared with 3,300 in the Ninth Five-Year Plan. The electro-erosion, electrochemical, ultrasonic and electron-beam treatment of metals is being introduced at the level of the five-year plan targets in machine building, and the mechanization and automation of production is increasing. Particular attention is being paid here to the assimilation of products with a higher productivity, unit capacity, reliability and working life.

The possibilities of an improvement in production thanks to traditional methods in metallurgy, power engineering, railroad transport and a number of other sectors are technically limited. For this reason the need arises for cardinal new solutions based on discoveries and inventions. Thus converters and installations for the continuous casting of steel are coming to replace open-hearth furnaces and blooming mills in ferrous metallurgy. The construction of AES has expanded, work is being performed on the creation of fast-neutron reactors and problems of superconductivity and magneto-hydrodynamic generators and so forth are being solved in power engineering.

An increase in the qualitative level of fixed production capital and labor productivity growth will be even more urgent in the period just ahead of us. A reduction in manual labor and the comprehensive mechanization and automation of production are an indispensable condition of economic growth. For this it is necessary to introduce the achievements of science and technology in production more rapidly and abbreviate the period of the development and introduction of new equipment, from scientific developments and the creation of models through the assimilation of mass production. There are currently frequent instances of long delays in models of new products being put into series and mass production. For example, of every 100 models of new types of machinery, equipment and instruments on which a decision had been made on their assimilation in series production in 1978, a start on the manufacture thereof in the year of their creation was made on only 25, it was planned to put 46 into production in the second year, while the remaining 29 were scheduled for the third year or some later date. These delays are connected to a considerable extent with shortcomings in planning the introduction of new types of product in production.

Programs of the solution of most important scientific-technical problems should not end, as is frequently the case, with the creation of experimental models. They must reflect questions of the organization of mass introduction

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and the development of production capacity; and determine the pilot ministries and co-effector-ministries, the volumes and time taken to perform the work, calculations of the effect on the economy, the production volumes necessary for satisfying the country's requirements, capital investments and material and labor resources.

It is important to determine the mechanism with which the technical policy and measures to implement it formulated and recorded in the scientific-technical programs will be embodied in the five-year and annual state plans of economic and social development. A criterion of the determination of economic policy in a sector might be comparison of the financially autonomous results of activity in the sector as a whole with the calculations of economic efficiency from the assimilation and introduction of new types of product and the growth on this basis of the social productive force of labor. An orientation toward norms of an increase in output per unit of capital investment and economic effect could contribute to the solution of these problems.

A most important direction of production intensification is insuring the balanced nature of production and capital construction. The need for the dynamic, proportional development of the economy and the removal of bottlenecks and strain in certain areas of our economy was sharply emphasized at the CPSU Central Committee November (1979) Plenum.

At the current stage production of the means of labor is outstripping the production of the subjects of labor, which is contributing to the accelerated renewal of the active part of fixed production capital, the replacement of manual labor by machine labor and the intelligent use of raw materials and goods. The average annual rate of increase in the means of labor in relation to the subjects of labor in the Eighth and Ninth five-year plans was a factor of 1.3 and in the 10th by a factor of 2.2. The average annual rate of increase in processing industry output exceeded the rate of production increase in the extractive sectors in the Eighth and Ninth five-year plans by a factor of 1.6-1.7 and in the 10th by a factor of 2.4. The reduction in the norm of expenditure on materials in the 10th Five-Year Plan compared with the Ninth Five-Year Plan was somewhat less here. A taut situation came about in industry, construction and other sectors of the economy in their provision of power, fuel, metal, chemicals and certain other types of raw material and goods.

An improvement in the proportions requires an appreciable increase in capital investments in the development of the fuel-energy sectors, metallurgy, chemical industry and a number of machine-building sectors. Considerable successes have been scored in this sphere in the last 10 years: the production of electric power and oil has increased by a factor of 1.8, that of gas by a factor of 2.2 and coal 1.2. The increased production of electric power and the extraction of fuel in the 10th Five-Year Plan is characterized by the following data:

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	1975	1979	1980 (annual plan)	1980 as a percentage of 1975
Electric power (billions of kilowatt-hours)	1,039	1,239	1,295	125
Coal (millions of tons)	701	719	745	106
Oil (including gas condensate; millions of tons)	491	586	606	123
Gas (billions of cubic meters)	289	407	435	150

The need for fuel and energy is growing rapidly. New large-scale measures and, primarily, the buildup of the capacities of the fuel-energy complex and an improvement in its structure are scheduled for the further development of the fuel-energy complex. The construction of TETs on the basis of the inexpensive coals of the Ekibastuz and Kansk-Achinsk deposits is being extended. Prerequisites for the accelerated construction of AES have been created as a result of the installation of the Volgodonsk "Atomash" Plant. It is planned to introduce AES with a total capacity of 4.9 million kilowatt-hours in 1980. The development of these power plants will provide an opportunity of easing the load on the fuel-extracting sectors to a certain extent. The creation of nuclear TETs could lead to the elimination of small boiler houses operating on gas and mazut. In the last 15 years the increase in the generation of electric power has outstripped the growth of the power plants' installed capacity, which has made it possible to make fuller use of available capacity. Insuring the reliability of power supplies and trouble-free operation demands an increase in reserve capacity at the current stage.

In 1976-1979 the growth in the volume of industrial production exceeded the growth in the generation of electric power, which led to a check on the pace of electrification and the development of techniques connected with electric power consumption. The buildup of the capacities of the power plants must insure continuous supplies of electric power to the economy, an increase in the electric power-worker ratio and the creation of modern power-consuming technology and an increase in electric power consumption per ruble of industrial output. Power consumption in agriculture, construction, the non-production sphere and other sectors will also increase simultaneously.

In 1980 it is planned to mine 745 million tons of coal, which is 26 million tons more than in 1979. The increased scale of construction of new mines will contribute to the further development of the coal industry. Furthermore, effective use must be made of the sector's internal potential. Currently there is no increase in the speed of advance along the breakage face, the average daily extraction per comprehensively mechanized face has fallen, and there has been a reduction in the productivity of the mechanized coal complexes.

An increase in oil production demands an improvement in geological-prospecting work in the promising regions, the increased growth of oil reserves

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thanks to the involvement of new deposits in active development and the optimum regional distribution of oil production. Some 586 million tons of oil and gas condensate were obtained in 1979, and in 1980 it is planned to produce 606 million tons.

The five-year plan quotas are being successfully met in the gas industry. Some 407 billion cubic meters of gas were recovered in 1979. The main increase in its extraction in 1980 will be secured thanks to Tyumen'. The accelerated construction of gas mains and compressor stations will contribute to the development of this sector.

A reduction in fuel and electric power expenditure, an increase in the economical nature of power engineering installations and the utilization of secondary energy resources are most important directions of an improvement in the country's fuel-energy balance sheet. The accelerated development of the production of economical equipment and technology, an increase in the heat-saving properties of industrial and residential buildings and the installation of regulators on radiators and gas meters at enterprises and in apartment houses could contribute to this.

The main direction of the development of ferrous metallurgy together with an increase in the production volume is an improvement in the quality and assortment of the rolled metal. Work has been performed to expand the assortment, increase the quality and improve the structure of the manufactured rolled metal in the 10th Five-Year Plan. In the period 1966-1979 the manufacture of merchant bar products increased 67 percent, cold-rolled sheet twofold, and with hardening heat treatment threefold, and of curved steel sections sevenfold. The Soviet Union is the world's leading producer of steel, rolled products and pipes. Some 103 million tons of merchant bar products were produced in 1979, and it is planned to produce 109 million tons in 1980. The production of steel will amount to 157 million tons and that of steel pipes to 18.5 million tons.

But the country's ferrous metal requirements are not being met in full. Difficulties in the development of ferrous metallurgy are connected with delays in introducing capacity, insufficient supplies of coking coal, interruptions in the operation of transport, overexpenditure of metal and shortcomings in management and planning. Thus the powerful "2000" rolling mill in Cherepovets has ended up without raw material owing to the uncoordinated introduction of capacities, and the development of the reprocessing of scrap and the iron ore base is lagging behind. Production and supplies of metallurgical equipment are lagging behind the sector's requirements. Ferrous metallurgy's fixed capital is aging. Units which have been in operation for over 25 years are currently producing 44 percent of the pig iron, 52 percent of open-hearth steel and over 40 percent of merchant bar products. An increase in the rate and scale of the introduction of the smelting of steel in powerful converters and electric furnaces and machinery for the continuous casting of steel of the radial and horizontal type and the expansion of the assortment of rolled products are urgently necessary.

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In accordance with the decisions of the 25th party congress and the CPSU Central Committee July (1978) Plenum, measures are being implemented aimed at making agriculture a highly efficient sector, increasing the dependability of the country's provision with agricultural products, improving their quality, reducing this sector's dependence on weather conditions and insuring the further alinement of living conditions in city and countryside.

To strengthen agriculture's material-technical base capital investments in this sector were increased in the Ninth and 10th five-year plans. More than R135 billion of capital investments for a whole complex of operations were channeled into the development of agriculture in 1976-1979, and their average annual volume was 3.5 times more than in 1961-1965. Approximately 2.6 million tractors and 715,000 grain-harvesting combines operated in this sector in 1979. The sector's fixed production capital on 1 January 1980 was R223 billion.

As a result of the reinforcement of the material-technical base the average annual production of the gross agricultural product in 4 years of the 10th Five-Year Plan increased by more than R10 billion or 9 percent compared with the Ninth Five-Year Plan. The average annual grain harvest in the current five-year plan constituted 209 million tons compared with 182 million tons in the Ninth Five-Year Plan, and cotton procurements in 1979 reached 9.16 million tons; the number of cattle on all categories of farm on 1 January 1980 was 115 million head compared with 111 million head at the start of the five-year plan. Production of the main animal husbandry products--milk, meat, eggs and wool--increased. In 1980 the increase in the gross animal husbandry product is to constitute 10 percent, and production of the main types of plant-growing products is envisaged at the five-year plan quota level.

Huge resources are being invested in the development of agriculture. "At the same time we have a right to be," L. I. Brezhnev observed at the CPSU Central Committee November (1979) Plenum, "and must be more demanding with respect to the intelligent use of resources and equipment and to insuring that the reinforcement of the material-technical base in the countryside be reflected more perceptibly in the level of the country's provision with food."

A decisive factor of an increase in agricultural products is an improvement in soil fertility and an increase in the yield of the fields and the productiveness of animal husbandry.

The development of plant growing is connected with a further expansion of the areas sown to new high-yield varieties and an increase in the quality and improvement in the structure of all sown areas. A large amount of improved land is commissioned in the USSR every year. In 1979 the total area of irrigable and drained agricultural land constituted 29 million hectares. The increased efficiency of their use represents considerable potential for stable big harvests. An increase in yield also depends on

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an improvement in fertilizer use. The tendency to cake of ammophos and potassium and certain nitrogenous fertilizers produced in granulated form leads to big losses and complicates their shipment and mechanized handling.

Work is being performed consistently on increasing fodder production. The production of grain for feed purposes is increasing, and the mixed-feed industry is being developed. The efficiency of work in this area largely depends on the fodder being balanced with albumin. However, the mixed-feed industry's need for albumin additives, amino acids, vitamins and other components essential for the production of full-value mixed feed is not being satisfied in full.

An important condition of the steady development of animal husbandry which excludes the forced slaughter of livestock in years with a poor harvest is the creation of insurance fodder stocks, particularly thanks to a considerable reduction in losses of coarse and succulent fodder. For this it is necessary to build depositories and increase the production and supply to agriculture of conservatories and synthetic film to cover silage and haylage trenches.

End results of agricultural production largely depend on the preservation of the products. Losses thereof are still great. The development of capacities for the primary processing of agricultural raw material (canning, pickling, cleaning, sorting and so forth) and its storage is an important factor of an increase in food resources.

Total capital investments in the national economy over the five-year plan with consideration of the 1980 plan will constitute R636 billion. The intelligent use of these resources will largely determine the scale and pace of expanded reproduction. To increase the efficiency of construction measures are being implemented to augment proportional expenditure on the re-tooling and modernization of operating enterprises, reduce the costs of construction and transfer it to the continuous process of the comprehensive mechanized assembly of buildings and installations. The technical level of construction is growing systematically on the basis of the introduction of efficient materials and structures and progressive work methods. Structures from light concrete and economical types of rolled metal are being employed more extensively. The volume of fully prefabricated construction and large-panel apartment houses with improved layout and comfortable apartments is growing.

In the current five-year plan the volume of capital investments and the national income have grown at an approximately identical rate. The proportion of the accumulation fund in national income has remained virtually unchanged. At the same time the nonfulfillment of the plan for the introduction of fixed capital has engendered an increase in the resources in incomplete construction and exerted a negative influence on the development of social production and its balanced nature. The delay in commissioning new fixed capital and production capacity has led to the economy experiencing a

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shortfall in a considerable quantity of products. The lagging is also connected with the dispersal of capital investments on numerous construction projects and a failure to observe construction deadlines. There are frequent instances of material and labor resources being diverted from priority projects and channeled into construction projects of local significance. The decisions of the CPSU Central Committee November (1979) Plenum pointed to the need "to decisively improve the state of affairs in capital construction, increase the effectiveness of capital investments, reduce the number of newly begun construction projects, concentrate forces and resources on projects nearing completion and also on the modernization and retooling of operating enterprises and enhance the quality of construction in all sectors of the economy."

The intelligent use of construction materials could contribute to an improvement in the state of affairs in construction. Many construction trusts expend more metal, cement and other materials than the amount to which they are entitled in accordance with the production norms for the actual amount of work done. There is also incomplete allocation of resources for the construction program envisaged by the plan. An improvement in norm-setting and the establishment of strict control over the expenditure of material resources would make it possible to balance the construction program with its material backup.

The acceleration of the retooling of production demands a reduction in the time taken to plan and construct new enterprises. Tardiness in planning and construction sometimes leads to the technical-economic parameters of the enterprises being commissioned proving to be 8-10 years old, and they can be considered new only formally. The equipment is obsolescent even before it begins to function, which is reflected in the social labor productivity.

Transport exerts a direct influence on the economy. The freight turnover of all types of transport in 4 years of the five-year plan increased 14 percent, including 24 percent in motor vehicle transport, 71 percent in pipeline and 3.5 percent in railroad. A great deal of work was performed on the creation of the Baykal-Amur Main Railroad--a line which is bringing to life new regions and involving new natural resources in the economic turnover. More than 1,500 kilometers of railroad track have been laid here. However, at the present time transport is not catering for the economy's freight and passenger transportation needs in full. Transportation requirements are growing not only in connection with the growth in the production volume in industry, agriculture and other sectors but also as the result of the rapid development of industry in the eastern regions and the extension of specialization and cooperation. Railroad transport is operating under great strain. Inefficient use is being made of the railroad's rolling stock: in 1979 there was a drop in car productivity, a reduction in the traffic speed of the freight trains and an increase in car idling during handling. Instances of the extraplan overhaul of locomotives and cars, which became more frequent, had a negative effect on the operation of the railroads. An increase in the fleet of locomotives and cars, the construction of new line and secondary

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tracks in intensive regions, the development of station facilities, the fuller use of available resources, particularly a reduction in car turn-around time, a reduction in the number of empty runs and the strengthening of production discipline will contribute to the normal operation of transport. In 1980 it is planned to commission 680 kilometers of new railroad lines and to build secondary tracks in sections with a length of over 1,100 kilometers. It is essential to increase the responsibility of industrial, construction and trading enterprises for the timely handling of the cars and adopt measures to put an end to irrational transportation. A long-term comprehensive program should be formulated together with the priority measures to improve the operation of transport. As L. I. Brezhnev pointed out at the CPSU Central Committee November (1979) Plenum, this program "should aim at the modernization of the railroads, the preferential rate of growth of pipeline, river and motor vehicle transportation and the mechanization of loading-unloading operations."

Under the conditions of developed socialism there is an increase in the role of the social factors of an increase in efficiency and the formation of the proportions of social production. The increase in the regulating function of the basic law of socialism is manifested in the rapprochement of the growth rates of groups "A" and "B" of industry, the improvement of the agrarian-industrial complex and the intensified development of agricultural machine building, machine building for light and food industry and the mixed-feed and microbiological industry, the production of mineral fertilizers and the expansion of work on land melioration. These measures, which are being implemented in accordance with the decisions of the 25th CPSU Congress, are contributing to an increase in consumer goods production and the growth of Soviet people's well-being. The output of group "B" of industry increased 17 percent in the 4 years of the 10th Five-Year Plan, and a growth of 4.5 percent is envisaged for 1980, as for group "A."

Sectors of light and food industry were further developed in the period of the 10th Five-Year Plan which has elapsed. Light industry output in 1979 increased 14 percent compared with 1975. The increase in output at enterprises of the USSR Ministry of Food Industry and Ministry of Meat and Dairy Industry were 8.3 percent and 3.5 percent respectively in this period. The production of children's foods and meat convenience foods enjoyed considerable development. The production of cultural-everyday commodities and household appliances increased particularly rapidly. Their manufacture increased by a factor of 1.3 in the period 1976-1979.

Measures to increase consumer goods production have been formulated and implemented in the course of the 10th Five-Year Plan. Furniture was manufactured in 1979 in the amount of over R5 billion, which was 23 percent more than in 1975. The quality of household appliances is improving. Technical documentation was drawn up in 1976-1978 for the production of 42 new types of goods in mass demand, and the series production of 27 types was assimilated. Over 12,000 video recorders were produced in 1979. This is a qualitatively new product with extensive use prospects in everyday

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life, the academic process and so forth. The production of portable small television receivers was assimilated. Some 714,000 of them were produced in 1979. Electronic and electronic-mechanical watches have won recognition. The task of organizing the production of automatic washing machines which reduce manual labor to the minimum has been set. The quality of domestic refrigerators in improving, the manufacture of large-capacity refrigerators is increasing, and the production of two-compartment refrigerators has begun.

Production is now oriented toward the customers' higher demands in respect of assortment, comfort, reliability and so forth. However, there is still an inadequate state of affairs in the production of fashionable and standard footwear and the quality of a number of types of cloth and garments and knitwear. There is a poor assortment of raincoats cloth, there are insufficient nonwoven materials, and synthetic detergents with biological additives and also agents for starching, brightening, bluing and disinfecting and with an antistatic effect are not being manufactured. The public's growing demand for cotton cloth, furniture and animal husbandry products is not being met in full. The sales organizations' demand for fur headgear, galvanometric elements, photographic paper and certain other products is not being satisfied in full. Additional measures are being implemented in the course of fulfillment of the five-year plan to increase the production of individual goods in mass demand which are in short supply.

The new conditions require of trade workers great flexibility and current-basis efficiency in the sale of goods in mass demand. The development of consumer goods production and the growth of retail commodity turnover and the services rendered the public insure the stability of money circulation in our country on the basis of the balanced nature of supply and demand and the stability of the prices of basic foodstuffs and industrial commodities. An imbalance between effective demand and commodity supply and available services leads to the growth of money accumulations among the population.

The main path of insuring the balanced nature of supply and demand is an increase in consumer goods production both thanks to an increase in production and an improvement in the quality of traditional light and food industry commodities and thanks to the creation and development of the mass production of new cultural-everyday commodities and household appliances. An increase in the production of mass consumer goods is connected to a considerable extent with the development of the appropriate heavy industry production facilities, whose share of the total manufacture of products of group "B" of industry is over one-fourth. A certain redistribution of capital investments in favor of these production facilities might contribute to an increase in market stocks of consumer goods and an increase in the degree of balance of the population's cash income and expenditure. It is also necessary to expand sales to the public of timber and construction materials, standard greenhouses, horticultural-truck garden implements, instruments and so forth.

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The evolved practice of an increase in the population's real income with the maintenance of the stability of the retail prices for basic foodstuffs and industrial commodities is justifying itself on the whole. It insures the possibility of a growth in the people's well-being on the basis of an increase in production efficiency and is contributing to an increase in the working people's financial interest in the growth of production and labor productivity.

The development of the economy at the current stage is occurring under conditions where more than nine-tenths of the able-bodied population is already employed in social production or is studying, and labor resources are increasing mainly thanks to young people coming of able-bodied age. The solution of the problem of labor resources should provide for: measures to increase labor productivity on the basis of new equipment and technology and the replacement of manual labor by machine labor; the scientific organization of labor and the intensification of labor processes; the fuller use of available labor resources with regard for territorial peculiarities; the optimum distribution of labor resources between sectors of material production and the nonproduction sphere; and an improvement in planning and the stimulating role of wages.

An increase in labor productivity is primarily connected with the higher technical level of new and modernized enterprises, at which output per worker is 1.7 times higher than at old enterprises. More than two-thirds of the total increase in labor productivity in industry may be attributed to an increase in the technical level of production. The comprehensive mechanization and automation of production and, in particular, of the labor of auxiliary workers represents most important potential for labor productivity growth. Activating it demands a considerable increase in the production of material-handling equipment and means of mechanization of intrashop and interoperational transportation and warehousing.

A number of progressive forms of labor organization has become prevalent in recent years in industry, construction and agriculture: an acceleration of labor productivity growth and an increase in the manufacture of output with fewer personnel (the Shchekino method), the comprehensive system of the organization of production, labor, management and wages according to the experience of the Volga Auto Plant in industry; payment by the job and the brigade contract in construction; harvesting-transportation complexes and brigades with time-rate (nonscheduled) remuneration in agriculture and others. The further dissemination of this experience is an important factor of labor productivity growth. As an analysis shows, employment of the Shchekino method makes it possible to release a certain percentage of industrial-production personnel with a simultaneous increase in the production volume. The labor productivity growth rate at these enterprises is higher than in industry as a whole.

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In the solution of urgent problems of the development of the economy an important role belongs to the formulation and implementation of measures to raise the level of management and planning and increase the influence of the economic mechanism on an increase in production efficiency and work quality. It is essential to continue to reinforce the centralized principle in planning and management while providing for due initiative in the operation of enterprises, associations and other organizations. It will be necessary in the 11th Five-Year Plan to implement large-scale measures aimed at an improvement in the management of social production. The accomplishment of the national economic tasks of the final year of the 10th Five-Year Plan will insure a reliable foundation for the further development of all social production.

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