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USSR Report

ECONOMIC AFFAIRS

(FOUO 8/81)

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ECONOMIC POLICY, ORGANIZATION AND MANAGEMENT

ECONOMIC TRENDS FOR THE EIGHTIES PROJECTED

Moscow VOPROSY EKONOMIKI in Russian No 2, Feb 81 pp 76-87

[Article by P. Ignatovskiy: "Trends of Economic Development in the '80s (Analysis of Practical Experience)"]

[Text] The developmental prospects of the Soviet economy in the '80s are characterized by the operation of tendencies disclosed in the '70s due to the growth of social requirements, the development of scientific-technical progress, strengthening of collectivized production, changing conditions of production in the extractive sectors and also the demographic and ecological conditions. The influence of these factors is felt first of all in the development of the productive forces of the mature socialist society and also production relations, organization of production and the results of social labor. This influence is neither straightforward nor one-sided; it is distinguished by its dialectical character and the contradictoriness inherent in it, which is expressed by the fact that in addition to positive phenomena there are to be found negative ones as well, which to a certain degree are objectively related to the developmental level of productive forces and for this reason they cannot simply be rid of. The fact is that people, as K. Marx emphasized, "are not free in the selection of their productive forces, which form the basis of their entire history because every productive force is an acquired force, the product of prior activity."¹ As a consequence of this succession, the developmental level of productive forces achieved in the '70s predetermines the prospects of the country's economic growth in the '80s. Therefore, the special features of the development of the Soviet economy referred to at the October (1980) Plenum of the CPSU Central Committee have not been brought in from without; they are derived from the developmental processes of productive forces and the direction of all production toward the satisfaction of the constantly growing social requirements.

A chief feature of the coming period of development of the Soviet economy is the fact that the Soviet Union, as emphasized in the plan of the CPSU Central Committee for the 26th party congress "Basic Directions of USSR Economic and Social Development for 1981-1985 and the Period to 1990," is entering the eighties with a powerful economic and scientific-technical potential and highly skilled cadres. The advances attained in the field of economic and social development make it possible to solve even bigger tasks. In a speech at the October (1980) Plenum of the CPSU

1. K. Marx and F. Engels, "Sochineniya" [Works], Vol 27, p 402.

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Central Committee, L.I. Brezhnev again emphasized the importance of concentrating the efforts of the Soviet state on the basic goal of socialist production--satisfaction of man's needs. Under the conditions of the tremendous scientific-production potential created by socialist society, this means that the entire system of organization of public production must be based in growing measure on the consideration of ensuring this goal. "It is necessary to develop," L.I. Brezhnev said at the Plenum, "the production of consumer goods on the basis of a well thought out long-term program capable of uniting the efforts of all sectors on which this depends." The satisfaction of the needs of the members of socialist society ought to predominate and determine productive consumption, that is, intrasectorial and intersectorial material and labor resources. In the forthcoming period, it will determine in particular both the national-economic proportions and the structure of capital investment, moreover objectively with tendencies inherent in the economy. And this objective need under the conditions of the '80s cannot but help be determining in the practice of planning and management.

The basic objective developmental tendency of the Soviet economy of the '80s lies in the need of a significantly more active and systematic intensification of all public production. Its realization depends on the direction of development of the productive forces. As is known, the determining element in the development of productive forces and their structure is to be found in tools of labor, primarily machines. This is their most mobile and revolutionizing element. But the revolutionizing influence on the production of this part of the productive forces depends on the intensiveness of use of their total aggregate on the structure of capital investment. It is manifested in close interconnection with other elements of the structure of material productive forces, particularly with objects of labor, especially raw-material and fuel resources and their proportionality with tools of labor.

Intensification produces a need for changes in the structure of productive forces so that it better contributes to economic growth and the use of accumulated production potential. Such a use predetermines the qualitative improvement of the actual potential, improvement of its structure, especially proportions between tools and objects of labor and between all the means of production and the work force. Consequently, intensification of production determines the need for improving the structure of capital investments. This means in economic policy a change in the approach to their distribution. The economic situation of the given moment calls for making more rigid the control function of central state organs in the allocation of capital investment and the creation of productive capacities.

The approach to questions of allocation of capital investment established in practice as the result of employment of extensive methods of management where "getting hold" of funds for expansion of production or construction of a new enterprises was the chief thing in ensuring production growth is now no longer sufficient. The solution of corresponding questions calls for stock taking of raw-material and labor resources and production capacities both at operating enterprises and in the construction of new facilities, particularly in the eastern regions. The aforesaid conditions dictate such a sequence in the implementation of economic measures for increasing intensification of production in which first of all the presence of material and labor resources, their use with account being taken of the character of individual and social requirements determine the efforts of society in the development and use of productive forces. Therefore, the effectiveness of economic policy depends on the degree pressing changes in the structure of productive forces are

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taken into consideration. But the policy and its principles and economic practice are not identical. The tasks of the state's economic policy are not always reproduced in operational practice. As pointed out in the plan of the CPSU Central Committee for the 26th party congress "Basic Directions of USSR Economic and Social Development for 1981-1985 and the Period to 1990" in connection with the results of the Tenth Five-Year Plan, "the mechanism of management and planning, methods of management and the level of labor and performing discipline lagged behind contemporary requirements. This hindered transference of the national economy to the path of intensive development."

In evaluating the influence on the structure of productive forces, there should be kept in mind that material and labor resources determine to a large degree at a given moment the possibilities of economic growth and consequently the needs of the country, for if this or that enterprise or sector has a shortage of raw and other materials, fuel and manpower, then even with the existence of the most modern tools, work stoppages can take place and the desired results will not be achieved. At the same time, in the development of productive forces, there frequently prevails in individual sectors growth of fixed production capital without the necessary analysis and assurance of its full use, either existing or newly created. As a consequence of this, certain cases have occurred of work stoppages of newly constructed enterprises in view of the fact that they were not provided with raw materials and cadres. Such employment of production factors contradicts the economic laws of socialism and is not in accord with the goal of socialist production.

Thus, at the present stage, an increase of intensification of public production requires a development of productive forces which is connected with the need of a stricter accounting in the planning of material-resource problems. Here the central problem becomes solution of the task of ensuring the quality of the make-up of the production potential determined by the technical level of accumulated production capital and used technologies, intrasectorial and intersectorial proportions. Elimination of elements of disproportion in the development of individual sectors and also between production capital and raw and other material and labor resources demands more valid economic decisions on the directions of capital investment for purposes connected with the improvement of existing production operations and the creation of new capacities and supplying of the national economy with fuel-power and raw-material resources.

At the same time, attention is drawn to the fact that the prevalence of the tendency for construction of new enterprises with an inadequate concentration of capital investment and a large volume of uncompleted construction, the cost of which amounts to almost one-fourth of the yearly volume of the national income, significantly "burdens" the structure of the economy, retards the processes of intensification of production and impinges on economic growth and the satisfaction of the needs of all society. The requirements of the population and the national economy are growing, but the possibilities of their satisfaction are being artificially limited by the "freezing" of a significant amount of material resources. At the same time, the possibilities of socialist expanded reproduction are narrowed and consequently, so are accumulations and increases of capital investment. It turns out that such a practice in the field of capital investment "strains" its sources and threatens curtailment of accumulations. To slow down today the dissipation of capital investment and to speed up the completion of ongoing projects means to expand tomorrow the possibilities of their growth.

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It is all the more important that the tendency for growth of unfinished construction is accompanied by another tendency: the freezing over an extended period of such a significant share of the national income in unfinished construction aggravates the aging of existing fixed production capital, especially operating machines, and mostly in those sectors that directly work on the satisfaction of human needs, such as the light, food and paper industry, as well as in the basic sectors of industry (ferrous metallurgy, machine building and metalworking, transport). In addition to this, a significant curtailment occurs in the named sectors of starting up production capacities through supplementary investment both into new construction and into the modernization of existing enterprises. Thus, over a year on the average has gone into the installation at textile-industry enterprises and looms and spinning spindles which are one-third the number in the years of the Eighth Five-Year Plan. The same can be said about capacities for the production of outer and under knitwear, cardboard, roofing materials, raw materials, rolled ferrous metals, cast iron and other types of products.

At the present stage, a significant factor in raising the quality of the existing production apparatus is growth of the share of capital investment in the reequipment and modernization of sectors of the national economy and individual enterprises. Reequipment and modernization, as they emerge from the plan of "Basic Directions," are becoming an important repository of scientific-technical progress, its normal conditions and a significant factor in intensification of the national economy. The more actively the process of intensification moves forward, the greater the scope with which modernization and reequipment of this or that sector is apt to be carried out. It is therefore no accident that in the period of growing technical improvement of public of our country, the scale of modernization and reconstruction is being expanded.

A special feature of reconstruction is to be found in its influence on intensification of production both for the enterprise--supplier of the means of production, that is, at the "point" of renewal of production capital, and for the consumer. Intensification is proceeding not only in the case of existing production but also with respect to the process of reequipment of production as the result of use in sectors that are users of the produced machines. At the same time, it is very important to ensure continuity of reconstruction through systematic planning of the proper measures within the framework of the sector for all existing enterprises. Unfortunately, such planning in some sectors has not yet become an obligatory prerequisite of technical improvement of production, while systematic reconstruction is occasionally replaced by sporadic, carried out as one of the measures of an enterprise or ministry.

Of course, scales and time periods of reconstruction vary in each sector and in each region and depend on the level of mechanization and automation of production processes as well as of wear and obsolescence of machinery and equipment. But state planning of reconstruction and reequipment of enterprises and resources support of these processes should contribute to their accomplishment within the calculated optimal periods provided by the plan. It follows from this that reconstruction and reequipment have to be of an obligatory character, while the evaluation of the work of collectives of enterprises and organizers of production has to be determined with account being taken of the planned volume of reconstruction of enterprises, providing growth of production efficiency, higher production quality and improvement of its use characteristics.

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A major role in the acceleration of technical progress, "discovery" of new preconditions of economic growth, higher labor productivity and solution of social problems is played by the relation of capital investment to reconstruction and new construction. This question was raised at the November (1979) Plenum of the CPSU Central Committee. It concerned a problem "permeated" with contradictions arising from both objective conditions and the subjective position of some departments and certain heads of enterprises. The approach to reconstruction must be changed on the part of ministries and planning organs. The fact is that it is no accident that so far more efforts are being applied to get capital investment for new construction; it is better provided with capital, labor resources and the start-up of new facilities expands the production potential of a sector. Objective causes are also expressed; these are particularly characteristic of enterprises with monostructure production, for example, tractor plants. Any sort of dislocations in the organization of reconstruction, especially dragging out of a performance period, affects its economic results and the operation of enterprises and forms a relation to this side of technical improvement of production. A tremendous role is played here by the organization of corresponding processes. Only with clear cut arrangement, reconstruction as a factor of intensification of production, and in this is to be found its basic economic function, contributes to the elimination of "bottlenecks" and consequently to the maintenance of balance of production within a given enterprise or associations. In this sense, reconstruction, as borne out by the experience of the ZIL Motor Vehicle Plant and other associations, has no alternatives. The fact is that with the construction of a new enterprises, "bottlenecks" are not eliminated at an old enterprise that cannot change the structure of its production, nor replace models, nor adopt new patterns of products. There the planning of reconstruction must be done in advance with account being taken of the time of wear and obsolescence of equipment.

On the basis of this, a proportion is established between new construction and modernization, affecting both the structure of capital investment and the distribution of material resources for the expanded reproduction of fixed production capital. And for this it is necessary to know the mass and the share of capital investment allocated namely for the modernization and also the expansion of production connected with reconstruction. The publication of "unfiltered" data can only disorient the operation of these processes.

In solving the complex problem of regulating the relation of capital investment to the distribution of material and labor resources for the purpose of modernization of production and new construction, the main role belongs to the state and its central organs. Here there may be manifested first and foremost the principle of democratic centralism in economics and its implementation via the state plan. But at the same time, it must not be forgotten that talented organizers are needed who are capable of performing the complex tasks of reconstruction in addition to the tasks of current production. Undervaluation of modernization means on the one hand the unwillingness of an operational manager to burden himself with "additional" cares; it also means limitation of his economic level, ignorance of the relations of factors of intensiveness and of reproduction process and, finally, the threat of dooming production in advance to the occurrence of "bottlenecks" and therefore of imbalance and disproportion.

And if society is obliged to experience difficulties in the satisfaction of needs, for example, in items shaped from ferrous metals, it is significantly due to the fact that specific economic leaders and organizers of production neglected

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technical progress and its decisive direction--modernization and ministries and departments did not oppose in time these developments of the state position or did not uphold it.

The directions of modernization are many-sided but not equivalent. Technology which is progressive in the broadest sense of this word is of particular importance at the present stage. The renovation of technology is the most general direction of modernization, resulting in renewal of certain producer goods, which is especially important for metallurgy and machine building. At the November (1979) Plenum of the CPSU Central Committee, it was pointed out that despite the tremendous scale of metal production, there is still not enough of it. At the same time, the chief reasons for the present position were noted, in particular the slow implementation of fundamental qualitative changes in metallurgy, where efforts toward technical progress, as L.I. Brezhnev points out, are directed slowly. The introduction of powerful oxygen converters, electric furnaces and continuous steel casting clearly lags, and the share of economic forms of rolled steel is growing inadequately.

With the attained level of metal production, the main direction of the further development of ferrous metallurgy is not so much the quantitative growth of metal production as a radical improvement in its quality and expansion of its assortment. The quality of the metal affects the quality and technical level of machines, while the quality of used equipment affects the quality of production of metallurgy.

In this sector, the determining reasons for the dissatisfaction of users of metal are to be found in slow renovation of technology and wear of equipment, that is, in those factors which to a significant degree are determined by modernization of existing enterprises. In machine building, these problems cannot be solved solely by the course of renovation. New technical solutions, basic theoretical developments and design planning are required. These factors in particular serve as prime movers of technical progress in machine building under the condition of provision of a well organized system of assimilation of the latest achievements of science. During the years of the Eighth Five-Year Plan (1966-1970), models were created of new types of machines, equipment and apparatus, averaging 3,112 units per year, during the Ninth (1971-1975)--3,038 units and during 1976-1979--2,813 units. And here it is not just a matter of organizing assimilation of new equipment but also one of maintaining a "portfolio of new developments," that is, to the extent the level of scientific-technical solutions "exerts a pressure on production." This is a serious problem. It demands improvement of economic relations in the field of science and production and organization forms helping to strengthen their ties, as well as the consolidation of scientific forces, engineer-designer cadres in cardinal new constructive solutions of problems not only of machine building as a sector but of the national economy as a whole.

With such a united national-economic approach, machine building, for example, in order to provide fuller satisfaction of the country's food requirements could develop and provide for users a system of machines (not only units) for the production of corn under the conditions of a drought-ridden steppe, soy beans and other legume crops, equipment for pig farms and complexes and so on. But this problem was solved disconnectedly. In Kherson, for example, the development of a new model of a corn harvesting combine has been dragged out and at other enterprises (producing mainly machines of that type), they once worked on the creation of a precise sowing seeder. As a result, the basic processes of cultivation of corn are

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considered mechanized; a great deal of metal is used up and farmers are deprived of the possibility of using modern technology on the whole area of corn sowing. This is also effected by a shortage of high-quality herbicides.

As a result of using herbicides, the level of sowing cultivation is raised and a sharp rise in yield is ensured, inasmuch as nutrients in the soil are retained for cultivated plants rather than for weeds as is the case on farms that do not carry out weeding and cultivation of the sowings in time. Moreover, the need is eliminated for actual weeding, which is a boring, labor-intensive task requiring big outlays of seasonal manual labor, a process for the cultivation of tilled crops which with herbicides is no longer necessary. There is eliminated the need for cultivators, of which a lack has existed to the present time, although the agricultural machine-building industry increased their output in 1979 to 202,000, that is, 14,000 more than in 1975. (We should note, however, that the achieved level is 4,000 below that in 1965).

Thus, the new technology used in the sector which is a user of machines, is inducing changes in the production structure in the producing sector. But such changes are not always of a sufficiently effective and systematic character. Actually, since, for example, herbicides are producing such a radical change in agriculture, it would be economically advantageous to reorganize the production of the tools of labor for agriculture and even possibly shift a portion of existing mineral fertilizer plants to the production of herbicides and to reduce the production of cultivators, using released metal, capacities and manpower for the production of other machines, for example, machines for the application of fertilizers to the soil and agents for the protection of plants or trailers for the transportation of agricultural produce from the fields.

In a word, changes in technology demand immediate reaction on the part of the industry producing machines for sectors directly satisfying the needs of the population, in particular for agriculture, but frequently that is produced which is provided by existing production capacities, although requirements change, creating the need for the adaptation of capacities to them.

At the fourth session of the Tenth Convocation of the USSR Supreme Soviet, the question was raised of increasing the output of powerful tractors. The problem is not new, it was referred to back at the 25th CPSU Congress with reference to the Pavlodar Tractor Plant, but the structure of the tractors being produced has changed little. Another question arises: what at present is the most acute need--growth of production of reapers, making it possible to reduce the time of working in grain in Kazakhstan and other regions or of certain machines, include passenger motor vehicles? This question logically stems from the following comparison: increasing the output, for example, of tractors, the industry holds back the production of agricultural machines. In 1979, production was reduced of a number of attached trailing agricultural implements, while the output of sowers, beet-harvesting combines, potato planters and several other machines very necessary to agriculture turned out to be lower than the level in 1965. As a result, growth of the output of tractive machines (tractors) does not achieve the aim--their capacities are being used far from completely. At the October (1980) Plenum of the CPSU Central Committee, the question was raised of the work of the Ministry of Agricultural Machine Building and of the development of this sector.

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The big growth of production of some machines compared to others is determined by the technical level of enterprises and the existence of production capacities. But if in the determination of the scale of production, not just capacities but also requirements are taken into account, the question then arises of the priority of needs, which was clearly expressed at the October (1980) Plenum of the CPSU Central Committee in relating to the food program and the conditions of its realization as well as of group "B" industrial sectors. A need exists for improving the structure of production in sectors related to group "B", especially with consideration being given to the fact that the national economy is experiencing difficulty in the hauling of freight, especially produce from the fields, orchards and vegetable gardens that serve as a raw material for group "B" enterprises. Here raising of the question is suggested on manipulation of production capacities and material resources, long-term restructuring of production and correspondingly use of material resources. It goes without say that the problem is in need of more thorough working out, and the main thing is that in the future when determining the production volume of this or that product we should proceed not only from the availability of production capacities but also from the requirements of society, their importance and their provision with productive capacities, the distribution of material resources and the whole structure of public production.

The effective use of material resources and created production capacities in combination with systematic modernization of sectors of industry and transport, making it possible to utilize the most progressive world and domestic achievements in the field of technology strengthens the possibilities of solving economic problems, which are connected today with a shortage of capital investment, material resources and manpower. With respect to group "B", this means not only an expansion of the possibilities of the national economy in the satisfaction of the needs of the population but also a direct increase of intensification of expanded reproduction and greater effectiveness of the national economy.

Consequently, it is a question of one of the main-line tendencies stemming from the special features of the economy of the '80s and the range of needs of socialist society exerting a definite influence on the use of accumulated production potential. Human needs as a goal of public production, conditioned by the fundamental economic law of socialism, predetermine the structure of social production. Taking account of such a pattern, the state determines for each segment of the planning period the volume of resources required for this or that need, depending on its social importance and real possibilities.

This is connected with the fact that the objective advantages of socialism--the freedom presented to the development of public production by the character of production relations--are attained in real life with account being taken of the existence of material and labor resources in each given historical period. The material and labor resource factor, and not just the existence of production capacities, determines the possibility and the necessity of preference in the range of social needs and their satisfaction. Emphasizing this feature, L.I. Brezhnev pointed out in a speech at the October (1980) Plenum of the CPSU Central Committee, characterizing the economic situation at the end of the five-year plan that we have had to and still have to overcome many difficulties. "Our difficulties were due to the exhaustion of many old, including large, mineral deposits and the shifting of the chief centers of the extractive industry to the East and the North." Nonetheless ministries and departments far from everywhere were able to overcome the force of

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inertia; resources are still not being allocated for first-priority aims. As a result, although possessing resources that were difficult to imagine 20-30 years ago and which no other country in the world possesses, we have not avoided shortages and national-economic disproportions.

In 1950, a total of 27.3 million tons of steel were smelted in the USSR and in 1979 --149.1 million tons; petroleum production (including gas condensate) was, respectively 37.9 and 585.6 million tons, gas--5.8 and 406.6 billion cubic meters and coal --261.1 and 718.7 million tons; produced electric power amounted to 91.2 and 1,238.2 billion kilowatt-hours and mineral fertilizers--to 1.2 and 22.1 million tons. The country attained first place in the world in the production of many kinds of fuel and raw materials, in the production of cast iron, steel, cement, mineral fertilizers and for a whole series of other indicators. Fixed capital is constantly growing and new labor resources are always being drawn in. "But the end result is," L.I. Brezhnev said, "that we are producing less than we ought to be, than our possibilities permit us. Hence the disproportions, shortages and inadequate reserves." Under these conditions, our economic practice cannot be oriented toward increasing the acquisition of raw materials and their production in agriculture without being concerned with the means of use and preservation of raw materials, their curtailment and subsequently the total elimination of their losses.

The difficulties of providing material and first of all raw-material supply can hold back the economic growth of a number of sectors. For this reason production growth cannot be ensured solely by the existing methods of increase of traditional sources of raw materials. The need for stabilization of the rate of production of certain kinds of raw materials and fuel and shifting of stress to the improved use of mined and produced raw and other materials is quite "imminent." In 1978, each third ton of steel was produced from scrap and wastes of ferrous metals, 20 percent of sulfuric acid from waste gases at metallurgical and petrochemical plants. But at the same time more than 100 million tons of the wastes of chemical enterprises contain important components, but these are hardly used. In the plan "Basic Directions," special importance is attached to these problems. The content of the stipulated measures takes into consideration the fact that a fuller, more rational use of resources is a promising tendency of the economy of the '80s, which will be intensified on the basis of new wastless and little-waste technologies in industry, the use of secondary resources, a change in technology of transportation and storage of agricultural produce. It constitutes an independent line of intensification of public production. Its economic significance is also determined by the reduced natural qualities of certain types of mineral raw materials, especially iron ores that require concentration. In 1950, something like 37 percent of mined iron ore was concentrated; in 1980 the figure was 86.6 percent. The implementation of these technological measures has been accompanied by almost doubling of capital investment per ton of used ore. In addition, this problem is not just economic, but also ecological.

In this connection, the problem of economy of metal is becoming increasingly acute; it will be solved through a change in the relation of rolled metal to castings, re-organization of the structure of the metallurgical industry with the intention of loading more fully rolling mills. With the volume of metal produced by our country, industry is experiencing its shortage because of irrational technology and a high share of use of casting, which uses 1.5-fold more metal than with the use of rolled metal. Here a clear-cut direction of technical policy is important in the field of metallurgy--reorientation from an insufficiently economically based growth of

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new capacities to a frontal reconstruction of the existing metallurgical set-up and its basic reequipment. This would require really intensive methods of management and intensive technologies to replace extensive ones. And not just in metallurgy but also in sectors that are users of metal, especially at enterprises for metalworking and machine building.

These sectors constitute the biggest user and at the same time the biggest waster of metal, although in the past five-year plan, significant results in its economy were obtained in machine building: almost each seventh ton of used metal was saved. But at the same time, of each used ton of cast iron and steel, 266 kg goes to waste. Shavings alone made up 6.8 million tons; of these a part is lost irrevocably. These figures confirm in large degree the necessity for changes in the technology of metalworking. They have been rather fully written up in economic and special publications. In the plan "Basic Directions," measures are provided that are meant to reduce in machine building and metalworking the relative share of expenditure of ferrous metals by an average of 18-20 percent.

The economy consists not only of material resources and labor, the relations of people in the production of material benefits, but also organization in the broadest sense, including forms of functioning of production and a system of production ties, the regulation of these ties and all activities in the use of the production apparatus and resources.

The economy of the '70s and the start of the '80s is characterized by significant changes in the organization of production; its forms are being improved, and production and scientific-production associations are being created. But so far not all of them have disclosed their possibilities; they exert a due influence on the effectiveness of public production and growth of labor productivity, especially in industry and construction. The insufficient economic soundness of the size of production associations, concentration of production and division of labor in them make themselves felt.

Frequently, there are included in production associations only enterprises and their affiliates and design bureaus, which were related even prior to the association. In the production structure of such associations, where real collectivization of production is replaced by formal renaming of an existing group of production facilities (plant, its branch and design bureau), little has changed. When the level of concentration and production specialization, technical equipment of the enterprise and distribution of manpower remain unchanged, shifts in the results of economic activity are hardly felt. Deficiencies in the operation of a number of all-union industrial associations are frequently due to the fact that these are transformed main administrations, retaining their former ties and methods of operation of production. Naturally, all this could not help but be felt on the level of management of production. Consequently, as emphasized by L.I. Brezhnev, "what are needed are not just any kind of association but those which actually raise to a new level socialist collectivization of production and labor, are based on the latest achievements of science and technology, provide the highest productivity and give the maximum of cheap production."

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At the present time, when the process of formation of production and especially scientific-production association is growing, organization in today's economy is assuming the forefront. Organization as managerial activity is that subjective factor which the party may use to oppose the negative influence on the economy of such objective factors as unfavorable weather conditions, the exhaustion of old mineral deposits and shift of the main centers of the extractive industry to the East and North, reference to which was made at the October (1980) Plenum of the CPSU Central Committee. These questions were first so broadly expressed in the plan "Basic Directions."

The main core of economic organization is the structure of production operations as well as the "conjunction" of the activity of organs of management of various levels. Here one way is possible: relieving of upper echelons with granting of the right to production elements, especially in the sphere of production of consumer goods, and solving questions relating to the products list and assortment of items. At the same time, production associations must be sufficiently strong to assume a certain risk in the introduction of new equipment for stabilizing the satisfaction of social requirements in concrete products of the corresponding quality. The concentration of production at associations should not be accompanied by the negative consequences of a position of prestige for some production operations in the economy.

The organizational structure of VPO [All-Union Production Associations] has to be improved. The reasons for the organization of these or those production structures should be carefully examined by the wide-ranging community, especially by production collectives with the participation of representatives of scientific institutions for the purpose of making the necessary corrections in the structure of production associations, their sizes and specialization. Measures are to be implemented, as provided by the plan "Basic Directions," aimed at overcoming departmental disconnectedness, and general schemes of management of sectors in relation to the tasks of the 11th Five-Year Plan should be refined. It is important for this work to be combined with the analysis of the economic work experience of production associations and elucidation of the reasons for the insufficiently significant changes in production efficiency for the purpose of making practically possible the realization of the most rational measures.

For improving the organization of production, the question of the relation of management practice to economic policy is of important significance. When one enterprise renews production and its technology, while another, which possesses possibilities for doing this, does not carry them out or when losses of raw materials or agricultural produce are permitted, there are required in such cases more than measures for improving the motivation and indicators of management. "...It is necessary," V.I. Lenin wrote, "to use all energies to unconditionally achieve one's own, to achieve the complete subordination of the apparatus to politics. Politics is a relation between classes--it determines the fate of the republic. The apparatus, as an auxiliary agency, the more firm it is, the better it is suited for maneuvering. But if it is not in a position to do this, it is good for nothing."² The

2. V.I. Lenin, "Polnoye sobraniye sochineniy" [Complete Collection of Works], Vol 43, pp 72-73.

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significance of this conclusion of Lenin grows under modern conditions in connection with the fact that today incomparably large material wealth is at the disposal of the state. And this multiplies manifold the responsibility of the state administrative apparatus for its use and for implementation of the party's economic policy.

There stems from this the problem of economic and technical activity of operational managers, their competence and ability to become oriented under an increasingly difficult economic situation and timely realistic reaction to changes imminent in the economy, first of all in the technology of production, receipts of raw and other materials, change in demand and consequently in the structure of produced products.

The problem of activity and competence in management of economic processes is connected to the ability of evaluating the possibility, inevitability and elimination of risk in the adoption of an economic solution. It presupposes the independence and capability of the operational manager in regard to disposition of material resources adequate enough to permit unhindered solution of questions in the interest of successful production.

A system of management for an economy that is as large as the present economy of our country has to promote the development of operational initiative and oppose the mushrooming of the administrative apparatus. It is necessary to restrict the "tendency" of highly concentrated operational structures to be overgrown by auxiliary, nonproduction services, structurally burdening the administrative system and hindering the solution of operational questions with excessive coordinations. Some all-union and republic associations have diverted to their staffs a portion of managerial workers from amalgamated enterprises. As a result, an economically unjustified removal has occurred of a portion of specialists from the sphere of production directly managed by them, and they have been shifted to a higher-costing but less productive administrative service. Such centralization of management, accompanied by a relative decrease in the number of specialists in production, is externally related to its concentration, but in reality the concentration is not taking place everywhere.

The effectiveness of any administrative measures depends on the solution of all these problems. Consequently particular attention was devoted by the October (1980) Plenum of the CPSU Central Committee to the problems of management and its effectiveness.

Economic tendencies of the '80s, increasing demands on people and on the mechanism of management, at the same time step up the adaptation of the economy to changing natural and social-economic developmental conditions and thus expand the country's potentialities and its production apparatus. Our country enters the '80s with a powerful economic and scientific-technical potential and highly skilled cadres. The advances achieved in the field of economic and social development will permit the solution of still bigger tasks.

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PLANNING AND PLAN IMPLEMENTATION

IVANCHENKO DISCUSSES ROLE OF PLAN CONTROL FIGURES

Moscow VOPROSY EKONOMIKI in Russian No 3, Mar 81 pp 61-69

[Article by V. Ivanchenko: "The Place of Control Figures in the Organization of Planning"]

[Text] In the Accountability Report of the CPSU Central Committee to the 26th party congress L. I. Brezhnev observed that "intensification of the economy, increasing its efficiency, means above all, if we transfer this formula to the language of practical affairs, that the results of production grow faster than expenditures for production, that we are able to get more production with comparatively fewer resources. Planning, scientific-technical policy, and structural policy must be subordinated to solving this problem. Methods of economic activity and management policy should also work toward efficiency." The system of control figures is also subordinated to this goal. The July 1979 decree of the CPSU Central Committee and USSR Council of Ministers on improving planning and the economic mechanism included the development of control figures as part of the uniform procedure of drawing up future plans for economic and social development of the country.

Control figures for the basic indicators and economic norms of the upcoming five-year plan are developed by USSR Gosplan and delivered to the ministries and departments of the USSR and the Councils of Ministers of the Union republics. When the enterprises, associations, and organizations receive the control figures from their higher-ranking organizations, they work out draft five-year plans of economic and social development (with distribution of assignments by years) and submit them to the higher-ranking organizations.

In conformity with the draft document "Basic Directions of Economic and Social Development of the USSR for 1981-1985 and the Period Until 1990," control figures are developed by USSR Gosplan for the upcoming five-year period with distribution by years. The control figures characterize not only the basic indicators for the most important sections of the plan, but also social needs for efficient use of labor, material, and financial resources. For the first time they include economic norms, which make it possible as early as the stage of development of the draft five-year plan to use the system of economic stimulation to compile optimally intensive plans, employ existing production capacities efficiently, and conserve resources allocated by the state.

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Providing scientifically substantiated control figures, including stable economic norms, creates the prerequisites for the development of socialist competition and counter planning in the stage of writing draft plans at the enterprises and associations. In this case the control figures are the starting point not only for development of the draft five-year plan with distribution of assignments by years, but also the first stage in the formation of economic stimulation funds with due regard for the figures on socialist competition and counter planning.

At the level of the ministries, departments, associations, enterprises, and organizations the control figures interact with the system of progressive technical-economic norms and norms by types of work and expenditures of labor, raw and processed materials, and fuel-energy resources, and norms for the use of production capacities and specific capital investment. This permits fuller consideration of all aspects of the reproduction process in the draft plan.

Completion of the development of enterprise passports will create a good analytic basis for fuller production potential, above all with respect to the use of production capacities and describing the technical level of production.

Direct long-term economic links between enterprises and organizations are formed (or refined) on the basis of control figures in the stage of development of draft five-year plans. These links provide the foundation for the conclusion of five-year and other contracts for the delivery of output, raw and processed materials, and assembly components.

It may be concluded from the above that control figures are expected to disclose in concrete indicators and norms the basic goals, resources, and efficiency of achievement of final results. Control figures are becoming an effective form of plan realization by combining key assignments and criteria "from above" with the development of optimal draft plans "from below" with due regard for factors that depend entirely on the initiative of the labor collective and the organization of labor and production. Of course, control figures can only play this role if they have a high level of scientific substantiation. A great deal remains to be done to achieve this.

Above all we must master contemporary methods of scientific analysis and determination of the economic and social efficiency of the projected system of measures in the fields of scientific-technical progress, streamlining management, and organization of labor and production so that their national economic and cost accounting impacts, in their interrelated aspect, are reflected in the basic directions of economic and social development of the country, the plans of sectors, associations, enterprises, and organizations, the system of control figures, and the changes over time in progressive norms and standards.

Substantiation of control figures refers to a consolidated determination of the expected national economic and cost accounting impacts from scientific-technical measures in such a way that each particular measure is substantiated by concrete economic calculations during the development of the five-year plan "from above" and "from below."

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What is new here is that the technology and organization of planning, above all the compilation of five-year plans, has a clearly defined stage of investigation and evaluation of the consequences of scientific-technical measures, improvements in management, and the organization of labor and production as the determining factors in fundamental changes in the proportions and structure of production and consumption, the technical and organizational levels of production, and production efficiency. This approach makes it possible to formulate and resolve the problem of developing all sections of the plan with comprehensive use of scientific and technical advances.

Defining the system of scientific-technical measures and their socioeconomic consequences is a fundamentally new approach. It does not preclude a continued search for optimal solutions during the development of consolidated balances and proportions and it does not replace so-called traditional methods of compiling all sections of the plan in parallel.

As concerns tradition, the concept of "traditional" methods of planning has often been used in a negative sense recently and opposed to various innovations in approaches to the development of plans and the use of particular indicators. I believe that in all spheres of life and social development the concept of "traditions" is most often linked to everything that is best, to that which has been selected by people over the centuries, becomes common property, and is carefully preserved by later generations. Traditions provide the foundation for the continued development of culture, art, crafts, and all facets of life.

Planning is no exception in this objective process. Despite the historically short period of time it has existed, planning has its own traditions, based on Marxist-Leninist economic doctrine and Leninist principles of management and economic activity. The socialist economies have developed stable planning traditions: the balance method; the combination of current and long-range plans, and of sectorial and territorial planning; the bolstering of centralism and development of the economic independence and initiative of labor collectives; socialist competition; and, counter planning.

If we exclude the occurrence of volunteerism in the determination of control figures and begin from a scientific substantiation of state needs for the development and efficiency of production in the interests of all society, the establishment of control figures is one of the traditional methods of planning. It is being resurrected today and receiving further development under conditions where the five-year plan is becoming the principal form of planning and economic activity at all levels from the ministry to the enterprise.

In this sense, it is not correct, for example, to classify planning from the level achieved as a traditional method. A starting point is objectively necessary for any process because movement is determined by a start, a finish, the time that passes between them, and other parameters. Planning has a special stage of the technological process of plan development, the base (starting) situation, where socioeconomic processes are viewed as continuous. Only in this sense can we refer to traditions. Making the base the only method of determining plan assignments is no longer a tradition, it is a distortion of the

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tradition that violates methodological principles of planning work. To reject it does not mean rejecting thorough analysis of the base, the starting point for the new phase of economic and social development.

The ministries, departments, associations, and enterprises are developing drafts of the 11th Five-Year Plan based on the control figures delivered to them using analysis of base data and the long-term prospects for development of production.

But what are the control figures that are being delivered to the ministries, associations, and enterprises? The development of control figures by years of the five-year plan is a major step toward improving future planning and reorganizing the economic mechanism on the basis of stable indicators and economic norms of the five-year plan. The control figures include many new indicators and norms. Foremost among them are net output (normative output), profit, ceilings on capital investment and number of workers and employees, norms for the wages fund and formation of economic stimulation funds, and assignments to reduce the use of manual labor.

Let us look more closely at the make-up of the control figures for the basic plan section for 1981-1985 and special features of their development. The section on the development of science and technology begins the system of control figures. It envisions assignments for proportion of output in the highest quality category and basic indicators for the technical level of production and the most important types of output produced by sectors of industry and the national economy.

The establishment of control figures for technical level of production and output is an important measure to improve the planning of the development of science and technology. These assignments cover: the development of production of output on the basis of new (up-to-date) equipment and technology; improving the structure of production by development of the production of highly productive machinery and equipment, progressive, high-quality materials and substitutes, and the like; raising the level of mechanization and automation of production processes; increasing the production output in installations with large unit capacities; reducing specific expenditures of the most important material and other resources per unit of output; raising the level of use of capacities of installations, recycling production waste, and several other lines of activity with due regard for the special characteristics of the sectors and plants.

At the present time the control figures do not have an indicator for the economic impact from scientific-technical measures. Solving the problems of strengthening the role of intensive factors of economic development, raising production efficiency and labor productivity, and reducing the capital-output ratio and material-intensiveness require an integrated economic evaluation of the return, of the final result of all scientific-technical and other measures that secure a savings of social labor. The new "Methodological Guidelines" for writing state plans for economic and social development of the USSR devote considerable attention to the questions of planning economic and social impact on the basis of scientific-technical progress and technical re-equipping of production. The system of control figures should in the future envision a

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comprehensive evaluation of the increase in the efficiency of public production on the basis of measures related to new equipment, improving management, and scientific organization of labor and production.

To a certain extent the assignment for raising labor productivity and profit and reducing norms of expenditures for the most important types of material resources characterize growth in production efficiency. But they must be based on an economic evaluation of all the factors in raising the efficiency of social labor, above all the "return" from plan measures related to scientific-technical progress, implementation of the system of comprehensive programs, and reconstruction and technical re-equipping of production associations and enterprises.

This approach to the development of control figures is a matter for the future, but preparation for it must be done today.

A number of ministries have already accumulated experience with planning the national economic and cost accounting impact of scientific-technical measures by years of the five-year plan, including the development, incorporation, production, and introduction of new equipment in the form of a total impact on the producer and user of the new equipment (savings of production expenditures, growth in profit, savings of concrete types of resources, and repayment of capital investment).

In the stage of development of control figures, of course, it is difficult to determine the expected impact from all scientific-technical measures based on calculations for each measure taken separately. Such calculations can be made on the condition that a special phase of preliminary development of projections for the full program of scientific-technical measures is singled out during substantiation of the conception and Basic Directions. If there is no such stage in the planning procedure, and this was the case during development of the 11th Five-Year Plan, in our opinion it is correct to use norms of the efficiency of capital investment in new equipment and reconstruction and technical re-equipping as the criterion of efficiency of expenditures for these purposes when substantiating the control figures. This means that the state limits requests for capital investment and the choice of areas of application with due regard for maximum permissible payback time which, in this case, works counter to the trend toward growth in the capital-intensiveness of production.

Payback times on capital investment in industry have increased sharply in recent years owing to the decrease in the prime cost of output. In 1975 the payback time was 11.1 years, while in 1977 it exceeded 25 years. This was a result of the extremely low rate of decline in expenditures per ruble of commodity output (0.3 percent in 1977) and the high rate of growth in the cost of a unit of increase in fixed industrial production capital.* This is evidence of

* See T. Khachaturov, "Ways to Increase the Efficiency of Capital Investment," VOPROSY EKONOMIKI No 7, 1979, p 124.

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the failure to use reserves such as concentration of capital investment and acceleration of the construction, introduction, and incorporation of new capacities, increasing the proportion of capital investment for technical re-equipping and reconstruction of enterprises, improving the structure of production, and increasing standards with respect to quality characteristics, the level of use of new equipment and technology, and the production capacities of existing enterprises.

In other words, we are speaking of the necessity of a fundamental improvement in the quality aspects of new equipment and its use. The volume of production of new equipment grows each year. Between 1976 and 1979 almost 11,000 new types of machinery, equipment, instruments, and means of automation were incorporated in production and put into series production; 30 percent of the fixed production capital of industry was replaced. Nonetheless, the return from the new equipment remains low. One of the principal reasons is that supply of this equipment to industrial sectors is not done on a comprehensive basis. Planning for raising the technical level of production and reconstructing and re-equipping enterprises is still poorly coordinated with planning the production of new equipment. It would seem that comprehensive programs should be developed to saturate enterprises with new and ultramodern equipment as the result of series and mass production of such equipment. These programs would make it possible to plan the efficiency of scientific-technical progress not only for particular measures but also on the basis of a planned and comprehensive rise in the technical level of sectors. Therefore, more expedient solutions could be found to be problems of accelerating the payback of capital investment based on growth in profit and the output-capital ratio.

Changes in the indicators of the output-capital ratio become more important each year. In 1980, for example, increasing the production of output by one kopeck per ruble of fixed industrial capital meant the additional production of 5 billion rubles worth of output, 800,000 tons of steel, and 4 million tons of coal. Unfortunately, in the stage of the development of control figures we have not yet been able to obtain an economic assessment of the return from the system of programs which are to be developed and carried out in the 11th Five-Year Plan. This cannot help lowering the level of substantiation of control figures.

The figures envision assignments for an average decrease in norms of expenditures of raw and processed materials, fuel, and heat and electrical energy in production and set norms for the use of boiler-furnace fuel and savings of fuel-energy resources, including both savings achieved by an average decrease in expenditure norms and savings of basic types of material resources in construction. A comprehensive evaluation of the consequences of scientific-technical progress for all the programs and measures is needed to raise the level of scientific substantiation of changes in norms and standards.

The control assignments for labor and social development are directly linked to the first section of the control figures. Control figures can be used to establish: assignments for growth in labor productivity, in industry, construction, and railroad transportation; a ceiling on the number of workers and

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employees and the percentage of industrial workers engaged in manual labor; standards for formation of the material incentive fund and the fund for socio-cultural measures and housing construction. The control figures include norms for wage expenditures per ruble of output (or norms for the total amount of the wages fund). Assignments for reducing manual labor are presented in the form of the proportion of workers engaged in manual labor, considering that changes in this indicator by years of the five-year plan reflect the level of mechanized labor achieved and change in the ratio between manual and mechanized labor.

Such norms are very important for compiling stepped-up plans if we consider that norms for formation of the material incentive fund, which usually cover an average of 8-10 percent of the total wages fund, cannot exercise a determining influence on change in the indicators of production and labor productivity or stimulate a decline in the number of workers and employees compared to ceilings.

The control figures devote a great deal of attention to measures of social development.

In addition to assignments for labor and social development (to reduce the use of manual labor and form the material incentive fund), a system of indicators is envisioned for growth in retail trade, the volume of domestic services, the development of public health and preschool institutions, increase in the number of schoolchildren, growth in the amount of printed matter produced, and introduction of housing space. There should also be here a system of indicators for environmental protection and rational use of natural resources (with more than 12 areas of activity) and a program of measures to protect and reproduce natural features.

As for cost indicators of industrial development, the control figures determine growth and commodity output in 1 January 1975 prices and rates (in the structure of the 1980 plan), while for ministries that have transferred to planning net output, growth in net (normative) output is used. Most of the ministries, above all machine building, will begin using the indicator of net (normative) output in 1982, after the ratification of new wholesale prices which include norms of net output. All ministries of processing industry will begin using this indicator in 1982. It has already been introduced at more than 2,500 enterprises.

The control figures envision significant changes for the most important types of industrial output in physical terms. Assignments are outlined by years of the five-year plan for more than 400 types of output, including more than 160 types of machine building output. New measures of output are used for many types of articles and make it possible to characterize both quantitative and qualitative parameters. Thus, the indicators of the most important types of steel pipe are given in two measurements (thousands of running meters and thousands of tons) while indicators for thermoplastic pipes and pipe parts are expressed in thousands of tons and thousands of kilometers.

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A similar solution must be adopted for cast iron pressure pipes, which continue to be planned in thousands of tons. In addition, solutions have not yet been found for all the types of rolled products.

Machine building has begun wider use of such units as sets per thousand kilowatts of electricity, thousands of tons of steam per hour, articles per thousand horse power, millions of rubles per thousand tons, articles per million rubles, millions of ampere-hours per thousand tons of lead (for storage batteries), and others.

But even here not all articles by any means are described in qualitative terms in the assignments and plans that are delivered. In our opinion, a possible alternative for solving the problem of quality characteristics for the broad assortment of rolled products, machine tools, and other articles for which the necessary units of measure have not yet been found is mandatory conclusion of contracts for the delivery of such output to customers with stipulation of quality parameters so that performance of the deliveries becomes an effective tool to monitor whether the output produced and delivered meets the customer's needs. But even in those cases where units such as items and tons are employed in the structure of measures of physical indicators it is important to insure conditions so that they will not be used to evaluate and stimulate the work of collectives.

Financial indicators have been included in control figures for the first time. The five-year plan broken down by years envisions ratification of a total sum of profit (reduction in prime cost for certain sectors), and a general norm for distribution of profit, payments to the budget, and appropriations for the state budget (for conditions of transferring ministries to cost accounting).

The control figures envision assignments for reducing prime cost. Profit is determined by calculation in this stage. The profit indicator is essential because the norms for the formation of economic stimulation funds and revision of the entire mechanism of cost accounting relations on the basis of the five-year plan are impossible without using this indicator, which defines the final result of financial-management activity. For ministries that have transferred to sector cost accounting, it would be important for the control figures to stipulate the norm for profit distribution also. This would significantly enhance the level of economic stimulation to develop optimal plans.

It must be considered, however, that the development of elaborate five-year financial plans and norms is a new and very complex activity. Dozens of factors influence profit indicators, some depending on the activities of the particular enterprise and some not. The structure of output produced, the quality of raw and processed materials, timeliness of introduction of capacities and supplying them with material resources, and change in the need for particular types of output affect this indicator. It is extremely difficult to consider all of them in the stage of development of control figures or even when ratifying the five-year plan. It would appear necessary for the ministries and industrial associations to have significant reserves to insure the relative stability of the indicators and economic norms of the plan. In special cases it will be necessary to ratify assignments and norms over again.

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At the same time, there must be a thorough review of the question of the degree of centralization of accounts with the budget. Under conditions of a five-year financial plan and establishment of norms for profit distribution and absolute amounts of budget payments it is hardly possible to insure the stability of indicators, norms, and working capital at each individual enterprise, including small enterprises, without centralizing final financial accounting at the level of the all-Union production association and ministries. At the same time, both the cost accounting system of the ministries as a whole and economic accountability for the final result of the work of a sector inevitably demand this approach. The instructions on profit distribution adopted thus far do not clearly answer this question.

The control figures for capital construction require special treatment. They envision delivering ceilings on state capital investment and construction-installation work with a breakdown for production and nonproduction purposes to USSR ministries and departments and the Councils of Ministers of the Union republics. According to the decree, the five-year plan should not only set a ceiling on capital investment as a whole when ratifying indicators for capital construction, but also allocate resources for technical re-equipping and reconstruction of existing enterprises. The lack of such an assignment in the control figures weakens the centralized influence on implementation of state policy in the area of improving the structure of capital investment and raising its efficiency. This is a complex problem, but it must be solved.

We must not underestimate the importance of the work that has been done to compile control figures for the 11th Five-Year Plan. But this work must be viewed as the first attempt to shape a system of control figures for future planning.

A certain degree of consolidation in the control figures and the system of progressive norms and standards imposes high requirements for the quality of work on draft five-year plans at all levels, above all in the primary management element. It is important to secure broader introduction of the progressive know-how of innovators, the initiatives of collectives, counter planning, and socialist competition to promote a more thorough search for and use of production reserves and raise its efficiency.

In connection with the forthcoming transition, during the 11th Five-Year Plan, to the use of a number of new indicators, the essential base must be accumulated this year, along with experience in the manipulation of such indicators. In our opinion, a correct procedure was followed by those ministries which in 1980, preparing to switch to the indicator of net output, organized an experimental test taking account of specific features of production and made parallel calculations of production volumes and other indicators calculated by normative net output.

Construction is using hypothetical net output, on an experimental basis, for planning labor productivity only. This indicator has already been set for 1981 to make the transition to the indicator of commodity construction output in the 11th Five-Year Plan. This complex, painstaking work will make it possible to gain experience, determine the range of initial norms and standards, and

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identify shortcomings that must be eliminated in the organization of construction work. Work is also being done to switch the planning, accounting, and evaluation of the activities and stimulation of construction organizations that belong to large construction associations to production assignments, schedules, and indicators within the associations that are oriented to final construction output and the efficient work of the association as a whole.

The development of economic stimulation funds in the 11th Five-Year Plan on the basis of the control figures and economic norms established by years of the five-year plan is particularly complex. On the one hand, the resources of these funds are considered in the plan, in proportions, for solving social problems. On the other hand, they are tied to many quality indicators of the plan (results of work) as both factor and final indicators and are subject to the influence of many processes that are difficult to consider and manage, especially for a period of five years.

The stage of development of control figures is the first stage of inter-relating planning calculations (beginning from national economic criteria and proportions), the sizes of economic stimulation funds, and the corresponding norms for their formation (to be more correct, planning calculations) at the levels of the ministry, association, and enterprise. This is a highly complex stage which is being undertaken for the first time in our planning experience. The purpose is to strengthen the role of economic norms in mobilizing reserves to write stepped-up plans "from below." The problem is to deliver to the ministries, associations, and enterprises substantiated indicators and norms so that stable economic norms for fund formation by years of the five-year plan can be determined and financial plans and mutual relations between cost accounting organizations and the budget compiled in conformity with them. Possible mistakes in this stage may weaken the impact of the stimulating functions of the norms and improperly put certain enterprises in more or less favorable conditions. It would seem that the solution to this problem should be sought by holding a certain part of stimulation resources and funds in reserve in this stage and precisely analyzing the factors which must not be taken into account in reviewing change in indicators and establishing economic norms. Well-founded conclusions on further improvement in the development of control figures in planning can be reached on the basis of a scientific summarization of our initial experience with their use in the 11th Five-Year Plan.

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INVESTMENT, PRICES, BUDGET AND FINANCE

FINANCIAL, CREDIT LEVERS IN ECONOMIC MANAGEMENT DESCRIBED

Moscow VOPROSY EKONOMIKI in Russian No 2, Feb 81 pp 128-139

[Article by G. Bazarova and V. Pashkovskiy: "Financial-Credit Levers in the System of Management"]

[Text] Improvement of the economic mechanism is indissolubly connected to strengthening of the role of financial-credit levers and stimuli in raising efficiency of production and quality of work.

A great deal of attention is devoted to the solution of this task in a decree of the CPSU Central Committee and the USSR Council of Ministers "On Improving Planning and Strengthening the Influence of the Economic Mechanism on Raising Efficiency of Production and Quality of Work." The plan of the CPSU Central Committee for the 26th Party Congress "Basic Directions of Economic and Social Development of the USSR for 1981-1985 and the Period to 1990" emphasizes the necessity "to enhance the role of financial-credit levers and stimuli in intensification of production, strengthening cost accounting and increasing the regime of economy. To actively use them in the solution of tasks of speeding up the creation and introduction of high-efficiency new equipment and also removing obsolete equipment from production, increasing output of consumer goods and rendering services to the population, mobilizing intraoperational reserves and liquidating nonproductive expenditures and losses and to increase responsibility for violation of finance discipline."

The financial-credit levers and stimuli, having for their basis objectively existing financial-credit relations and reflecting their principal features, appear as active instruments of planned management of the economy.

Financial-credit relations present a specific sphere of the production relations of socialism connected with the distribution and redistribution of the aggregate social product and national income. They encompass a significant part of commodity-monetary relationships, mediating circulation and turnover of capital in the functioning parts of the national economy in the process of expanded reproduction. Finances and credit play a marked role in planned regulation of the production process on a countrywide scale and provide the possibility to society through a system of monetary funds to put into motion labor and material resources, to concentrate them on the decisive sectors of the economy and to exercise control over their use. Having a common economic basis, finances and credit are differentiated according to sources and character of movement of funds. In contrast to financial

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relationships arising in the course of formation and utilization of special purpose monetary funds on permanent principles, credit relations constitute a form of irrevocable redistribution of funds.

Through the medium of the mechanism of financing and credit extension, distribution of profit and payments into the budget, repayment of loans and payment of interest, formation and utilization of the amortization fund and other monetary funds and reserves, the distribution and redistribution of the gross social product and national income are carried out; financial resources are formed and expended at all levels of management of the economy. In this complex process, finances and credit exert an influence on development of production, improvement of qualitative and quantitative indicators of management, curtailment of nonproductive expenditures and losses and increasing revenues of the state; they provide the possibility of exercising control over the effective use of labor, material and financial resources.

With such a big diversity of financial-credit levers and stimuli, an important role is played by their classification, including the purpose of allocation of funds and levels of control. In connection with the differences inherent in finances and credit as special, relatively independent forms of monetary relations, it would be proper to examine separately "financial levers and stimuli" and "credit levers and stimuli." But their examination in the aggregate has its advantages. It makes it possible to disclose more completely general patterns and to determine new tendencies in the development of finances and credit and the tasks facing them. This is particularly important for the analysis of the mechanism of operation of a sector of industry, within the framework of which (on the level of associations and enterprises) the interaction of financial-credit relations is most close.

Economic levers and stimuli, including financial-credit ones, develop with improvement of the economic mechanism depending on changes of objective social-economic conditions. The reorganization of the economic mechanism now being carried out has required the introduction of appropriate changes in the system of financial-credit levers and stimuli. During the 11th Five-Year Plan an expansion is to take place of the sphere of operation of individual financial levers employing, formerly experimentally, primarily the normative method of profit distribution. The new procedure of financing work relating to science and technology will become universal, and the mechanism of operation of individual financial instruments (payments for capital, formation and use of economic-incentive funds) is changing; the sizes of individual forms of payments and installments (interest for credit, rates of social-insurance deductions, of piece payment for cut down trees, the deductions for compensation of state outlays for geological prospecting work) are changing; new financial-credit levers (payment for water taken by industrial enterprises for their water systems, new forms of credit extension and payments) are being introduced and so on.

The improvement of financial-credit levers and stimuli is done in close interrelation with measures for improvement of planning, further development of cost accounting and regulation of price formation.

In the field of financial-credit planning as a component part of national-economic planning, the task is now being solved of transition from short-term plans (annual, quarterly) to medium-range (five-year) plans as a basic form of planning and in a number of instances to plans developed for a more extended length. The transition from annual to five-year planning encompasses both the system of consolidated plans

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and balances developed at the top level of economic management (the consolidated financial plan of the state, the balance of monetary receipts and expenditures of the population, consolidated calculations of state-budget receipts and expenditures, long-term and short-term credits) and the entire system of financial plans and balances of ministries, associations, enterprises and organizations.

It was considered for a long time that financial-credit indicators, subjected to the action of many factors (not only physical-material but also price), could not be advantageously calculated for a number of years ahead, since their reliability becomes less certain with lengthening of the planning period, while the effectiveness of affecting production is reduced. With acceleration of the tempo of scientific-technical progress, whose consequences are difficult to take into account over the long term, with changes in the conditions of extraction and delivery of fuel and raw-material resources, with the development of international division of labor and foreign economic ties and in connection with other factors, the difficulties of long-range planning are increased. At the same time, the indicated difficulties are increasingly balanced by the accumulated experience of planning and management of the socialist economy as a whole and of its individual spheres and by the enrichment of the actual planning resources (development of the program-goal method, wide use of norms, employment of modern electronic equipment, introduction of automated control systems). Solution of the tasks of long-term planning is aided also by the general improvement of the system of economic ties, introduction into the practice of interrelations of enterprises and associations of long-term agreements and contracts, bolstering of the system of economic stimuli for the fulfillment of outlined plans and economic responsibility for the violation of adopted commitments and so on. The transition to five-year plans will make it possible to increase the influence of finances and credit on growth of production and its increased effectiveness; at the same time it will contribute to increasing the effectiveness of the system of control as a whole, as well as of plan balance and a fuller coordination of all its sections. Under the conditions of raising the material well-being of the population and growth of the needs and possibilities of their satisfaction, major significance is being given to the development of five-year balances of the income and expenditures of the population as a means of improving the mechanism of monetary circulation, strengthening of the balance of its proportions and assuring stability through the creation of the necessary reserves.

Enhancement of the role of the five-year plan and the development of cost-accounting relationships in the sectors of the national economy will create conditions for the wide use of a system of long-range norms in financial practice.

During the 11th Five-Year Plan, a gradual transition will be carried out of industrial ministries, associations and enterprises to a normative method of profit distribution, which has undergone experimental verification at a number of ministries--Ministry of Instrument Making Automation Equipment and Control Systems, Ministry of Tractor and Agricultural Machine Building, Ministry of Heavy and Transport Machine Building, Ministry of Power Machine Building and Ministry of Electrical Equipment Industry. With the first year of the new five-year plan, this method of profit distribution will be used in two other ministries: the Ministry of Construction, Road and Municipal Machine Building and the Ministry of Machine Building for Animal Husbandry and Fodder Production. Its broader adoption will become possible with the introduction of new wholesale prices and rates.

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The use of the normative method of profit distribution, increasing the responsibility of production associations and enterprises, industrial associations and ministries for the results of their financial-operational activity, increases their interest in the most effective use of material and financial resources. The increased responsibility at all levels--from enterprises to ministries--is achieved with the help of obligatory paying into the budget of a planned sum of payments regardless of the actual results achieved. Absolute sizes of deductions from profit into the budget for ministries transferred to this method will be established in five-year plans spread out by years. If in any year of a five-year plan, the approved profit plan is not fulfilled, payments will nevertheless be made in the full amount into the budget through a commensurate reduction of profit remaining at the disposal of the ministry. With expansion of the sphere of use of the normative method of profit distribution, the principles of cost-accounting financing of planned outlays will find correspondingly broader application. Normative profit deductions calculated on the basis of five-year plan indicators and left at the disposal of the ministry or association presuppose more complete mobilization of all existing owned sources of financing of planned expenditures. At the same time, conditions are created for the broader utilization of long-term bank credit in the financing of capital investment.

It should be pointed out that the sphere of use of the normative method of profit distribution is rather narrow at present. It has inadequately touched upon the basic (primary) element--production associations and enterprises, and much work remains to be done in this direction. Among those transferred to the new method, there is not a single heavy-industry ministry; they do not have either ministries of light or food industry with the exception of republic ministries, a portion of which have been shifted to this method with the first year of the new five-year plan. The readiness of industrial ministries to work on the basis of cost-accounting methods depends not only on objective factors (for the extractive industry this is connected first of all with the introduction of new wholesale prices and rates and for the food and partly the light industry--with improvement of the conditions of supply of raw and other materials). The readiness for such transfer is largely determined by the level of work of ministries on improving the financial position of dependent enterprises and elimination of disproportions in the development of subsectors and bolstering economic (including finance) services. A higher level for this work would make it possible to significantly reduce the time of changing over to progressive methods of profit distribution and financing of planned expenditures.

The expansion of the sphere of use of the normative method of profit distribution provided by the decree of 12 July 1979 is combined with strengthening of the stimulating role of payment for capital as well as a certain change in the role and place of payments from profit. Payment for capital will as before be made into the state budget from balance profit in the form of priority payment. At the same time, in accordance with the new procedure payment for above-norm noncredited stocks of physical assets and uninstalled equipment will be made from profit left at the disposal of associations and enterprises. This will increase their incentive in reducing stocks of materials and equipment whose sizes in a number of sectors are most significant at the present time. Enterprises and associations with fulfillment of production and profit plans with a smaller value of capital than prescribed are granted the right to leave at their disposal savings relative to payment for capital. Here installments of payments into the budget are reduced by the sum of savings prescribed for the ministry as a whole in accordance with the total norm of

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profit distribution. Boosting of the stimulating role of payment for capital will also contribute to a reduction of the list of production capital on the basis of which benefits are granted. During the 11th Five-Year Plan, it is expected that the collection of fixed payments will be expanded for highly profitable products for production purposes that have been put out for an extended time. This measure will primarily affect enterprises of the processing industry, including possibly machine building where payments were formerly not employed.

With the transfer of ministries to the normative method of profit distribution, there will be a change in the character of such a payment (quite large in size) as payments of free residuum of profit into the budget. Renamed deductions from profit, it becomes an element of absolute (guaranteed) sum of payments, which will have to be made in full size into the budget and in case of underfulfillment of the profit plan. The size of this payment will be determined as part of the total sum of payments from profit with the approval of the five-year plan.

Simultaneously with the introduction of the new wholesale prices, new, higher rates of deductions for social insurance will begin to be used, the size of piece payments for cut down trees, deductions for the reimbursement of state outlays for geological prospecting work; payment will also be introduced for water withdrawn by industrial enterprises from water supply systems. The new rates of deductions for social insurance, which are being just about doubled for basic industrial sectors, will contribute to a more accurate determination of economic gains from the introduction of new equipment and stronger incentives in the use of manpower. The introduction of payment for water withdrawn from water supply systems is aimed at more rational use of this natural resource and at conservation of the environment. Up to the present time, expenditures for the construction and operation of water supply systems were basically made from state-budget funds, and expenditure of water was not reflected in the production cost of water-using enterprises. The increase in the size of piece payments for cut down trees will be of important significance for fuller reimbursement of expenditures on reforestation and compensation of outlays of the state for these purposes. State budget funds are being used at the present time for the financing of a significant portion of outlays for geological prospecting work (in excess of 60 percent). Improvements in the system of payments into the budget for geological prospecting work is primarily connected with fuller inclusion in the production cost and wholesale prices of expenditures of enterprises of the extractive industries for these purposes.

In accordance with the decree of the CPSU Central Committee and the USSR Council of Ministers "On Improving Planning and Strengthening the Influence of the Economic Mechanism on Raising Efficiency of Production and Quality of Work," financial levers of management of scientific-technical progress are being strengthened on the basis of improvement of planning and organization of work in the field of science and technology. In this connection important significance should be attached to the new procedure of financing of scientific-technical work on the basis of the common fund for development of science and technology created on the basis of long-term norms through deductions from profit of subordinate associations and enterprises. The new form of financing constitutes one of the elements of the so-called cost-accounting organization of work for science and technology on the basis of supply authorizations, which has undergone extended experimental testing at a number of industrial sectors. Like the normative method of profit distribution, the new procedure of financing scientific-research work, development and introduction of new

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equipment and new types of products has for its aim increasing the accountability and motivation of ministries, associations, enterprises and scientific organizations in speeding up scientific-technical progress in the sector.

The establishment of norms for deductions from profit into the common fund for the development of science and technology in percent of the indicator of commodity or normative net production will make it possible to tie in the size of the fund to the final indicators of the operation of enterprises and associations. In the case of their improvement compared to the targets of the five-year plan, the size of the common fund may be increased, which will commensurately expand the possibilities of conducting scientific-technical work. Moreover, there now also goes into the common fund for development of science and technology a part of additional profit formed from bonus additions to prices of products for efficiency and quality. The expanded output of such products will contribute to increasing the size of the common fund for development of science and technology.

The new system of financing scientific-technical work from the common fund for development of science and technology has replaced the old system based on a multiplicity of independent sources (budget allocations, deductions from production cost of products for scientific-research work, money from the fund for assimilation of new equipment and so on). Scientific-research, planning-and-design and technological work are done with funds from the common fund; outlays connected with the development and assimilation of new types of products and manufacturing processes and the introduction of scientific organization of labor are reimbursed; additional expenditures connected with the improvement of production quality and higher costs of new products in the first years of production are covered. This fund may be used at associations, enterprises and organizations of machine building for the payment of one-time bonuses for the development, assimilation and mass production of especially important and highly efficient types of equipment and machines and also for the creation and adoption of basically new manufacturing processes.

Industrial ministries are thus permitted to turn over a portion of the money of the common fund for the development of science and technology for disposal by industrial associations and large production and scientific-production associations. Ministries are given the right to use up to 20 percent of the common fund for the development of science and technology for the creation of the required scientific and technical stockpile.

Deductions into the common fund for the development of science and technology comprise a significant portion of the profit of those ministries where it is created. Thus, in 1979, for 15 industrial ministries the relative share of deductions for these purposes in the total sum of their profits amounted to on the average 12.7 percent. The relative share of these deductions is highest at the Ministry of Electrical Equipment Industry (26.1 percent), the Ministry of Tractor and Agricultural Machine Building (25.4 percent), the Ministry of Power Machine Building (20.8 percent), the Ministry of Heavy and Transport Machine Building (22.8 percent) and the Ministry of Instrument Making, Automation Equipment and Control Systems (12.5 percent).

The creation of the common fund does not mean, however, that other sources of financing work connected with the development of science and technology in the sectors will not be used. For conducting especially important scientific-research

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requiring significant outlays and implementing complex scientific-technical programs whose importance has grown significantly, fund from the state budget may be used in addition to money from the common fund for the development of science and technology. Credit extension for this work is being expanded.

As of 1 January 1981, new normative documents are in force regulating the procedure of formation and expenditure of money from economic-incentive funds.¹ They reflect measures aimed at enhancing the role of economic-incentive funds in the solution of pressing social-economic tasks of the 11th Five-Year Plan.

Strengthening of the role of bonus funds will be helped by the normative method of their formation in percent of profit (estimated) and a closer tie-in of bonus funds to the fulfillment of delivery plans, growth of labor productivity and improvement of production quality. Measures are no less important for strengthening the rights of enterprises and associations in the use of money from economic-incentive funds, including the fund for the development of production. In 1980, 13.7 percent of state capital investment was provided from the fund for development of production and other non-centralized sources.

For the development of the system of cost-accounting relationships and expansion of the economic functions of ministries and industrial associations, importance significance is to be found in raising the level of centralization of a portion of the financial resources of enterprises and associations for the purpose of solving common problems of a sector and financial assistance to individual enterprises. Thus, ministries, departments and industrial enterprises have been granted the right to create from amortization deductions intended for capital repairs a reserve in the amount of 15 percent of the total sum of these deductions to be used at those associations and enterprises that do not have enough of their own funds for capital repairs. A ministry can also transfer a portion of the money of economic-incentive funds to the reserve, while industrial associations can create centralized bonus funds and a fund for the development of production of up to 15 percent of the total sum of each of these funds. Maximum sizes of deductions from profit for the formation of the reserve of financial aid have been fixed in an amount varying from 1 to 4 percent.

In the stimulation of production efficiency, a major role is played not only by financial but also by credit levers. At the same time, the importance of credit methods of redistribution of funds grows with each year. The economic basis for the redistribution functions of credit lies in the change of the character and increased size of financial resources in the national economy as well as the existence of rather developed cost-accounting relationships.

1. See "Basic Positions on the Formation and Expenditure of the Material-Incentive Fund and the Fund for Social-Cultural Measures and Housing Construction (Bonus Funds) for 1981-1985 in Industry" and also "Instruction on the Procedure of Formation and Utilization of the Resources of the Fund for Development of Production at Production Associations, Enterprises and Organizations of Industry, Construction-Installation and Planning-Prospecting Organizations."

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The change in the character of financial resources is manifested first of all in extension of the period of their use. This applies both to the resources of enterprises, associations and sectors and also to centralized funds of monetary resources. The increase in the size of financial resources at the disposal of enterprises and operational organizations can be judged to a certain degree by the residues of temporarily free monetary resources to be found in their payment accounts. These residues increased by 27.8 percent from 1976 to 1979.

One of the manifestations of the expansion of redistribution relationships in the national economy is an increase in the share of the national income accumulated through the state budget. From 1976 to 1979 it grew from 60.2 to 64.2 percent. The increase in financial resources is also shown by the growth of the population's savings and insurance funds. In relation to the national economy, the size of deposits in savings banks by the population from 1976 to 1979 increased from 26.7 to 33.4 percent.

Expansion of redistribution relationships and also the implementation in recent years of measures for strengthening the cost-accounting independence of enterprises (which was especially marked under the conditions of reorganization of management of the economy and the creation of production and industrial associations) serves as an economic basis for the strengthening of credit relations. The character of the loan fund, and consequently of credit relationships, has been significantly influenced by the increase in the length of time used for credit extension of monetary resources, which permits more active employment of credits for the development of the national economy. But the influence of credit levers on boosting efficiency of management depends not only and not so much on the size of credits extended to enterprises as on their types and the conditions of issue and repayment, that is, on the existing mechanism of credit extension. The direction of the mechanism of credit extension is determined by the tasks of economic development at each concrete stage.

In conformity with the requirements for the development of the economy advanced at the 24th and 25th CPSU Congresses and subsequently concretized in the decisions of plenums of the CPSU Central Committee and in decrees of the USSR Council of Ministers, the credit mechanism has been aimed at stimulating intensive development of the economy, acceleration of the rate of scientific-technical progress and raising the living standard of the Soviet people. These tasks, as can be drawn from the "Basic Directions of Economic and Social Development of the USSR for 1981-1985 and the Period to 1990," remain central to the 11th Five-Year Plan and in the future. For their solution, new kinds of credits were introduced, the procedure of granting and using formerly established credits was changed and the procedure of credit planning has been improved.

In the process of credit planning, the basic directions of investments of credits by types are determined; the size and main receivers are established within the sectorial framework, that is, the basis of credit relationships in the forthcoming period is laid. At the same time, it should be kept in mind that, as a part of financial resources, credit exercises an influence on production-operational activity of enterprises together with the operation of other financial levers and in close connection with them. For this reason it is important to determine in planning this connection and the place of each source of financing, which is a prerequisite for their rational use. The planning tie-in of budget and credit resources provided by the decree of the CPSU Central Committee and the USSR Council of

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Ministers on improving the economic mechanism makes it possible during the compilation of the country's consolidated financial balance to determine more precisely the size of monetary resources needed by the economy. An important role in this can be played by the compilation of a single financial-credit plan at each enterprise. The development of a methodology for the compilation of such a plan is an urgent task of finance and bank organs.

But an economically based compilation of a credit plan is only one of the conditions of effective utilization of credit resources. Of no less importance are the efficient functioning of the mechanism of credit extension, the creation of economically based condition of issue and repayment of loans and establishment of the size and procedure of charging interest for the use of credit. This applies both to short-term credits for current outlays and to long-term credits in the investment sphere.

For the purpose of increasing the influence of credit on the operation of enterprises and bolstering of their cost-accounting accountability, the USSR State Bank in recent years (especially after the decree of the USSR Council of Ministers "On Certain Measures for Improvement of the Procedure of Credit Extension and Payments in the National Economy" in 1973) expanded the range of objectives of short-term credit extension and changed the conditions of granting a number of loans. In particular, the USSR State Bank at the present, in addition to loans granted as before in relation to above-plan reserves of commodity stocks whose development is connected with seasonal fluctuations of receipts of raw materials and sales of products, the carrying over of times for the production of individual items, the noncoincidence of times of accumulation of physical assets and growth of the norm of own working capital and the like, widely grants credits for the elimination of defects in operational and financial activity: for stocks of extra, unnecessary and old commodity stocks when enterprises implement real measures for their sale; for the temporary compensation of a shortage of own working capital. The indicated loans are arranged in credit agreements between institutions of the USSR State Bank and enterprises that specifically stipulate the time periods for repayment of the credits and their use.

The USSR State Bank is devoting a great deal of attention at the present time to the creation of favorable conditions for accelerating scientific-technical progress. For this end, since 1973 credit extension for expenditures at priority projects has been expanded--for getting going newly operating enterprises, production facilities, shops and assemblies. Such expenditures include costs of adjusting work and comprehensive testing of equipment during the start-up period. Credit is also extended for expenses relating to the preparation and development of new types of products and the introduction of new manufacturing processes: for planning and design, for the development of a process for the manufacture of a new product, for shifting and readjusting equipment, for the fabrication of experimental samples.

Reequipment of production is favorably affected by credits granted by the USSR State Bank for above-norm production stocks, remains of unfinished production and finished products in instances where the accumulation of these stocks is connected with the manufacture of new products and raising the quality of the items.

Among the important measures outlined by the decree for the improvement of the economic mechanism, there may be also included the granting to ministries and departments

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the right to obtain credit for work financed from the resources of the common fund for the development of science and technology under conditions where the receipt of money from this fund and the size of outlays made on the basis of this fund do not coincide. Credit is also issued to production associations and enterprises for the payment of work financed with money from the fund for the development of science and technology when the indicated work is completed in a shorter period than is specified by the plan; for the implementation of highly effective measures for the development of science and technology not provided by the plan with payment of the credit and interest within two years from the date of its issue at the expense of money of the common fund for the development of science and technology. This credit is granted under a guarantee of ministries, departments and all-union industrial associations. The issue of the indicated credits together with carrying out of the unification of sources of financing of expenditures for the development of science and technology will contribute to the development of work on technical improvement of production. In this regard, an active role is bound to be played also by credits issued for the implementation of highly effective measures relating to the output of new products and the raising of the quality of the produced items above the limit of state capital investment. Such credits are issued for a period of up to two years and are paid back from the additional profit resulting from the implementation of the measures for which the credits were extended.

Expenditures for expansion of the production of consumer goods and improvement of consumer services also are covered by credit under the same conditions. With the determination of the period of reimbursement of outlays and sources for paying back of credit, it is permitted to take into account in addition to extra profits up to 50 percent of the turnover tax obtained from the sale of consumer goods produced because of the credit-extension measures. Such credits provide an additional economic effect. As pointed out by chairman V. Alkhimov of the board of the USSR State Bank, "in 1979 alone 13,669 such facilities went into operation because of above-plan credit. Institutions of the State Bank granted about one billion rubles of credits, which made it possible to put out an additional production in the amount of 2.4 billion rubles and to receive an additional profit in excess of 600 million rubles for the year."²

The creation of favorable conditions for the continued improvement of the material-technical base of production and improving the quality and reducing the time of work of a capital character will also contribute to carrying out the present shifting of contractors to settlements for completed finished facilities ("turnkey") and changing in this connection the procedure of providing them with working capital and abolition of customer advances and shifting of contractors to straight bank credit extension for expenditures relating to unfinished production of construction and installation work to the planned period of turning over of a completely constructed enterprise or complex. Such a procedure of payments and credit extension is also being introduced for planning organizations. All this opens up the possibility in the investment sphere of creating a single credit-payment mechanism that takes into account relationships of clients, contractors, planning organizations and suppliers

2. V. Alkhimov, "The USSR Banking System in Operation" (KOMMUNIST, No 8, 1980, p 35).

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of equipment and increases the economic accountability of the indicated organizations for the timely carrying out of construction-installation work and their reimbursement within a fixed time.

The establishment of complex credit relations in the investment sphere largely depends on the solution of the question of expansion of long-term credit extension for clients. The presently existing system of forming one's own house funds for capital investment, budget financing and credit-extension conditions hinder the possibility of expanding long-term credit extension to customers. It probably would make sense regarding planning to restrict the possibility of intra and interdepartmental redistribution of funds, to create a wider field of operation for long-term credits, to change the conditions of their issue and repayment and, in particular, to establish a longer period for their operation as proposed by many economists.

An important role in the improvement of credit relationships and strengthening of cost accounting is bound to be played by such a significant element of the credit mechanism as the interest levied for loan use.

As of 1 January 1981, there have been in operation new interest rates for the use of bank credit. Their special feature is the greater differentiation depending on the character of credit, the conditions and the length of time of its use. In particular, interest rates have been raised for loans connected with overcoming deviations from the normal course of operational-financial activity of enterprises: for temporary making up of an insufficiency of own working capital--from 2-7 to 8 percent, for payment of wages--from 2-3 to 5 percent, for opening up of letters of credit and for profit redistribution--from 1-4 to 5 percent and so on. Differentiation of interest rates has been significantly expanded for the use of long-term credits; the lowest rate was established for credits in the case of ahead-of-schedule completion of work; somewhat higher with completion of measures in the planned period; the level of interest rises sharply (twofold or more) in the case of violation of planned periods for completion of work; the highest interest is exacted for overdue payments for loans.

At the same time interest rates have been standardized for separate uniform credits regardless of sectorial affiliation of borrowing enterprises. This principally applies to credits connected with completion of payments. In conformity with these rates (5 and 10 percent), payment has also been introduced for the use of loans above the established planned sizes and control figures in the case of credit extension from special loan accounts. Such a standardization is an important condition for the implementation of a unified economically based credit policy.

The operation of interest for credit will be significantly increased if an acceptable form of its payment for credits in connection with unsatisfactory operation of an enterprise is found through the means of the material incentive fund.

A higher fine for overdue payments on delivered commodity stocks, provided services and completed work, varying from 0.03 to 0.04 percent of the sum of the overdue payment for each day of nonpayment will be of stimulating value. The fine increase is meant to compensate to a certain degree losses from breach of the normal course of the process of reproduction due to nonpayments by buyers.

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Taking into account the importance of ensuring timely payments of bills for delivered commodity stocks and services, a significant change was introduced in 1980 in the procedure of granting to buyers credits that have to be paid for. In order to protect the interests of the supplier, who precisely fulfills his contractual obligations, it was established that when payment came due and the purchaser had a temporary lack of funds, the payment documents accepted by him would be paid by the bank from a loan passed on to the purchaser, with repayment of the loan in 60 days in the order established for payment for commodity stocks and the charging of 5 percent annual interest. On expiration of the indicated time period, the credit extension is continued at a charge of 10 percent. The introduction of this procedure of providing credit to be paid for means the granting of significant benefits to buyers; it takes into account the growing cost-accounting independence and accountability of buyers. But such special benefits in credit granting, aside from improved payment discipline, may also exert a negative influence on the operational-financial activity of enterprises if they are granted to cover deficiencies in the work of operational organs. It is therefore very important to take account in the issue of such credits the character of the financial difficulties of enterprises and organizations. In the case of financial difficulties existing for a long time, the issue of such credits is economically unjustified.

An important condition of rational use of short-term credit is provision to enterprises and organizations of own working capital in a normal size. For this end, it was proposed to ministries to work out in coordination with the USSR Ministry of Finance and to approve economically based working-capital norms and during the 11th Five-Year Plan to bring on-hand working capital into accord with these norms, with the use in case of necessity of bank credit in place of part of the norm. Fulfillment of the indicated requirement will make it possible to provide a proper combination of own and borrowed funds in the operational turnover and a timely and full return of the credits received by the enterprise, which will increase the influence of the credit mechanism on the operation of enterprises and associations.

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