

FOR OFFICIAL USE ONLY

JPRS L/10000

21 September 1981

USSR Report

ECONOMIC AFFAIRS

(FOUO 13/81)



FOREIGN BROADCAST INFORMATION SERVICE

FOR OFFICIAL USE ONLY

NOTE

JPRS publications contain information primarily from foreign newspapers, periodicals and books, but also from news agency transmissions and broadcasts. Materials from foreign-language sources are translated; those from English-language sources are transcribed or reprinted, with the original phrasing and other characteristics retained.

Headlines, editorial reports, and material enclosed in brackets [] are supplied by JPRS. Processing indicators such as [Text] or [Excerpt] in the first line of each item, or following the last line of a brief, indicate how the original information was processed. Where no processing indicator is given, the information was summarized or extracted.

Unfamiliar names rendered phonetically or transliterated are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear in the original but have been supplied as appropriate in context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by source.

The contents of this publication in no way represent the policies, views or attitudes of the U.S. Government.

COPYRIGHT LAWS AND REGULATIONS GOVERNING OWNERSHIP OF MATERIALS REPRODUCED HEREIN REQUIRE THAT DISSEMINATION OF THIS PUBLICATION BE RESTRICTED FOR OFFICIAL USE ONLY.

JPRS L/10000

21 September 1981

USSR REPORT
ECONOMIC AFFAIRS
(FOUO 13/81)

CONTENTS

ECONOMIC POLICY, ORGANIZATION AND MANAGEMENT

| | |
|---|----|
| Problems in Elimination of Distinctions Between Town, Country Discussed (P. Savchenko; VOPROSY EKONOMIKI, Jun 81) | 1 |
| Kronrod Examines Management, Incentives Mechanism (Ya. Kronrod; VOPROSY EKONOMIKI, Jun 81) | 13 |

REGIONAL DEVELOPMENT

| | |
|--|----|
| Review of Book on Regional Planning (V. Pavlenko, O. Nekrasov; VOPROSY EKONOMIKI, Jun 81) ... | 26 |
|--|----|

- a -

[III - USSR - 3 FOUO]

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

ECONOMIC POLICY, ORGANIZATION AND MANAGEMENT

PROBLEMS IN ELIMINATION OF DISTINCTIONS BETWEEN TOWN, COUNTRY DISCUSSED

Moscow VOPROSY EKONOMIKI in Russian No 6, Jun 81 pp 69-79

Article by P. Savchenko: "Overcoming Social and Economic Distinctions Between Town, Country"¹

Text New social and economic prerequisites for overcoming the essential distinctions between town and country are created in the developed socialist society. The establishment of the material and technical base of communism, approximation and merging of the two forms of public property--kolkhoz-cooperative and national--abolition of the remainders of the old division of labor between town and country,¹ transformation of agrarian labor into a variety of industrial labor, change in the form of wage organization for kolkhoz members and application of the social security system established for workers and employees to them are the economic foundations for overcoming these distinctions. Overcoming the essential distinctions between town and country is connected with the development of the social homogeneity of society and is one of the specific forms of manifestation of this process. "Evaluating the experience in the development of our society in the last few decades," said L. I. Brezhnev in the accountability report at the 26th CPSU Congress, "I believe that it can be assumed that the formation of a classless structure of society will occur mainly within the historical framework of mature socialism."

The rural area develops in the general system of social and economic relations, primarily production relations, and, ultimately, the ways of changing it are determined by the operation of objective economic laws. The labor of rural residents is connected predominantly with land as the basic means of production in agriculture.

Gradually overcoming the essential distinctions between town and country presupposes an expansion of the country's social and economic functions and the development of industry, the nonproduction sphere and domestic services in it. "Basic Directions in the Economic and Social Development of the USSR for 1981-1985 and for the Period Until 1990" stress the need for the further development on kolkhozes and sovkhoses of subsidiary industrial production facilities and cottage industries for the processing of agricultural products, for the production of building materials and for the output of consumer goods. As agricultural production is transferred to an industrial basis, as agrarian labor is transformed into a variety of industrial labor and as nonagricultural sectors are developed, the remainders of the old division of labor between town and country, when the country remained only the sphere of application of agrarian labor and the town, of industrial labor and of the concentration of institutions of the nonproduction sphere and domestic services, are overcome. The expansion of the sphere of application of labor

FOR OFFICIAL USE ONLY

in the country and the combination of agrarian labor with other types of labor strengthen the social and economic relations between town and country and bring the level and way of life in them closer together. The liquidation of the remainders of the old division of labor between town and country is one of the most important conditions for overcoming the essential distinctions between them and for advancing society toward a full social homogeneity and communist equality.

The reproduction of the remainders of the old division of labor is due primarily to the essential distinctions between agrarian and industrial labor--distinctions in the level of its socialization, in the specialization and concentration of production and so forth. As the essential (social and economic) distinctions between town and country are overcome, agrarian relations will determine the specific nature of the country as a social and economic body systematically developing within the framework of a single national economic complex. At the same time, the transfer of agricultural production to an industrial basis, considerable strengthening of its material and technical base and overall mechanization of labor intensive work are of decisive importance.

The overall mechanization of sugar beet, flax and cotton production, of the application of organic and mineral fertilizers to soil and of the use of plant protection agents is to be completed during the 11th Five-Year Plan. The level of mechanization of the harvesting of all crops, in particular cabbage and tea, will rise and, what is especially important, mechanization on livestock breeding farms will be improved.

Mechanization of Work in Plant Growing and Animal Husbandry
(in % of the total volume of work)

| | 1965 | 1970 | 1975 | 1979 |
|--------------------------------|------|------|------|------|
| Sugar beet combine harvesting | 67 | 78 | 86 | 90 |
| Potato combine harvesting | 11 | 24 | 42 | 43 |
| Mechanized cotton harvesting | 22 | 32 | 43 | 53 |
| Overall mechanization of work: | | | | |
| on large-horned cattle farms | | 9 | 25 | 39 |
| on hog farms | | 23 | 56 | 61 |
| on poultry farms | | 23 | 59 | 69 |

The conclusion of overall mechanization is an important stage in the transfer of agricultural production to an industrial basis. This transfer is a complex, long process presupposing profound structural changes in the capital investments of the country's agrarian and industrial complex, qualitative changes in equipment and technology and in the specialization and concentration of production and the training of new types of personnel. In the system of the USSR Administration of the Poultry Breeding Industry 81 percent of the output was produced in enterprises with industrial technology in 1980 and, basically, this process is to be completed in 1985. As a result of the introduction of industrial technology the expenditures of labor and fodder per unit of output were lowered sharply there and production costs were reduced. At the enterprises of the Administration of the Poultry Breeding Industry from 1965 through 1979 the expenditures of labor on the production of 1,000 eggs were reduced by a factor of 5.3. In 1979 the expenditures of labor on nonspecialized sovkhoses were 4.2 times and on kolkhoz poultry farms 7 times higher than at the enterprises of the Administration of the Poultry Breeding Industry.

FOR OFFICIAL USE ONLY

For a more profound investigation of the social and economic essence of the process of bringing town and country closer together we will show the industrialization of agriculture under capitalism. Under the conditions of modern capitalism the village ceases to be only the sphere of application of agricultural labor--industry and sectors of the nonproduction sphere and of domestic services develop in it. Profound changes in the village's technical and economic base, industrialization of rural regions and modernization and diversification by moving some industrial sectors and service spheres to rural regions occur under the effect of the scientific and technical revolution. The process of overall mechanization of cultivation of labor intensive crops is being completed in the farming of a number of countries. Along with the introduction of maximum- and average-capacity machines the use of small-size equipment (of the orchard and garden type) is increasing. The rise in the level of the technical structure of capital in the agriculture of developed capitalist countries leads to a reduction in the total number of those employed in it. In 1979 "one farmer in the United States fed 59, in Western Europe, 19.2 and in Japan, 13.7 people."²

Under the effect of scientific and technical progress under capitalism profound changes occur in the productive forces of agriculture, the sphere of application of labor and capital expands, but, at the same time, the antagonistic social and economic contradictions between town and country are not abolished.

Within the framework of the agroindustrial complex the biggest monopolistic corporations concentrate in their hands the production of agricultural equipment, mineral fertilizers and chemical plant protection agents, as well as the marketing and processing of agricultural products. For example, in the United States four conglomerates--Kellogg, General Mills, General Foods and Quaker Oats--supply 91 percent of the grain to the U.S. market, three conglomerates--Borden, National Dairy and Carnation--control 60 to 70 percent of the marketing of dairy products and Campbell produces 90 percent of the soup concentrates. Monopolies buy up agricultural produce at low monopoly prices and sell industrial goods at high monopoly prices. For example, from 1945 through 1971 the prices of goods bought by U.S. farmers increased by 98.3 percent and of goods sold by them, only by 38.3 percent. In the last 30 years the number of American farms was reduced by 60 percent.

The state pursues an active policy for the purpose of preventing agrarian crises or boosting production. In various capitalist countries in case of need large funds are allocated for anticrisis measures and for the implementation of a policy of agrarian protectionism in the interests of big capitalist farms. According to the data of R. Bergland, former U.S. secretary of agriculture, 6 percent of the country's big farms now control the bulk of the food production and 2 percent of the giant farms produce more than one-third of all the foodstuffs.

Thus, the capitalist form of socialization prepares the technical and economic prerequisites for the abolition of the old forms of social division of labor between town and country and for the industrialization of agriculture, but does not abolish the economic basis--the private ownership of means of production reproducing the contrast between town and country. "The contrast between town and country," noted K. Marx, "can exist only within the framework of private property."³ Socialism puts an end to this contrast.⁴

FOR OFFICIAL USE ONLY

The approximation of the two forms of public property is of great importance in the developed socialist society. The kolkhoz-cooperative property has a significant effect on the economic situation of rural areas and on their specific nature in the single national economic complex. Therefore, its integration with state (national) property is a factor in overcoming the social and economic distinctions between town and country. At the same time, it retains an important role in the social and economic development of rural areas at the present stage. In 1979 the share of kolkhozes in all the capital investments in agriculture comprised 32.1 percent and in the production of agricultural commodity output, 42 percent.

The kolkhoz-cooperative property determines the fact that to a significant extent the surplus product of farms is not socialized to the same degree as the surplus product of state agricultural enterprises, which limits the possibilities of its utilization according to a single plan on the scale of society or the kolkhoz-cooperative sector. Certain differences between kolkhozes and state agricultural enterprises also remain in the level of socialization of the necessary product. In the combined budget of the family of a kolkhoz member the income obtained on the kolkhoz, wages of family members, pensions, stipends, grants and other payments and privileges from social consumption funds (including free education, treatment and so forth) comprise 71.5 percent and in the combined income of the family of a worker, 97.4 percent.

Gross income is one of the basic indicators of the economic development of kolkhozes. The accumulation and consumption funds of kolkhozes are formed from it. As a result of the implementation of the agrarian policy of the CPSU outlined by the March (1965) Plenum of the CPSU Central Committee a big step was taken in the creation of the basis for the economic and social development of kolkhozes. In 1979 as compared with 1965 the gross income of kolkhozes (in the comparable range) increased from 15.7 to 22 billion rubles.

It should be noted that the social and economic development of rural areas also presupposes the solution of such a complex problem as overcoming the distinctions between advanced and lagging farms. According to the data of the USSR Central Statistical Administration, in 1979 27 percent of the country's kolkhozes obtained up to 10,000 rubles of gross income per 100 hectares of arable land, whereas 24 percent of the country's kolkhozes, more than 40,000 rubles. Improvement in the planning of state purchases envisaged by the decree of the CPSU Central Committee and the USSR Council of Ministers "On Improving Planning and Economic Stimulation of the Production and Procurement of Agricultural Products" (14 November 1980) will greatly contribute to the solution of this problem.

The increasing role of national property is manifested in the rise in the role of sovkhoses and other state agricultural enterprises in the production of gross and commodity output. During the period from 1965 through 1979 the number of kolkhozes decreased from 36,300 to 26,000. The average annual number of all kolkhoz members decreased from 18.6 million to 13.7 million people. During that period the number of sovkhoses increased from 11,700 to 20,800 and the average annual number of workers engaged in all the economic sectors of sovkhoses increased from 8.2 million to 11.5 million people. The role of sovkhoses increases in connection with the implementation of a system of measures for an improvement in planning and economic stimulation of the production and procurement of agricultural products

FOR OFFICIAL USE ONLY

and strengthening of cost accounting. All these measures are directed toward an increase in the profitability of agricultural production and improvement in the financial and economic state of sovkhozes.

During the period under consideration the proportion of sovkhozes and other state farms in the production of agricultural commodity output increased from 36 to 46 percent. The rise in the role of sovkhozes and other state agricultural enterprises leads to an expansion of the direct participation of state (national) resources in the liquidation of the remainders of the old division of labor between town and country, in the industrialization of agriculture and in the leveling out of the conditions of management.

In 10 years--from 1965 through 1975--the proportion of those employed in manual labor was reduced from 75.6 to 56.4 percent.⁵ True, in plant growing this reduction was small--from 77.2 to 73.4 percent--while in animal husbandry, although the proportion of simple manual labor not at machines and mechanisms decreased considerably, the proportion of manual labor at machines and mechanisms increased significantly. This reflects the nonoverall nature of mechanization carried out in animal husbandry accompanied by an increase in manual, including unskilled, labor, which limits the possibilities for enhancing its meaningfulness. As before, agriculture remains the most labor intensive sector of the national economy. Under these conditions an accelerated transition from partial to overall mechanization on the basis of the development of concentration and specialization acquires special importance in overcoming the distinctions between agrarian and industrial sectors.

Such new forms of socialization of production as interfarm cooperative and interfarm cooperative-state enterprises acquire special importance in overcoming the social and economic distinctions between town and country.⁶ In 1978 of the total number of participants in the established interfarm enterprises (without construction enterprises) kolkhozes accounted for 79.5 percent, sovkhozes, for 18.8 percent and other enterprises, for 1.7 percent. The amount of contributions of member farms was 3.67 billion rubles, of which 85.6 percent was the share of kolkhozes, 11.5 percent, of sovkhozes and 2.9 percent, of other enterprises.⁷ During the period from 1975 through 1979 the fixed capital of interfarm enterprises (including construction enterprises) increased from 8,110.9 million to 14,865.2 million rubles, the average number of workers engaged in the agriculture of interfarm enterprises, from 150,500 to 286,200 and the average annual number of workers engaged in construction and installation work, from 511,900 to 517,100.

The development of interfarm cooperative enterprises has a significant effect on social and economic relations in agriculture, because interkolkhoz ownership of means of production and a new intraclass social group are created at the base of these enterprises. In their social status the workers of interfarm cooperative enterprises hardly differ from the workers of state agricultural enterprises. Their wages, social insurance and social security are provided in accordance with the standard statute established by the USSR State Committee for Labor and Social Problems for the workers of sovkhozes and other state agricultural enterprises.

Interfarm cooperative enterprises play an important role in the acceleration of the transfer of agricultural production to an industrial basis, in the increase in the specialization and concentration of production and in the socialization of

FOR OFFICIAL USE ONLY

the necessary and surplus product in the kolkhoz-cooperative sector, which accelerates the process of overcoming the social and economic distinctions between town and country. The amount of the capital investments of kolkhozes in interfarm cooperative enterprises and organizations was 8.9 million rubles in 1960 and 382.8 million rubles in 1978, that is, it increased 43-fold. The total property of the participants in these formations increases more rapidly than the property of individual farms.

Interfarm enterprises and production associations based on two forms of property--kolkhoz-cooperative and state (national)--operate in agriculture along with interfarm cooperative enterprises. In 1978 the proportion of mixed enterprises made up 58.3 percent of the total number of interfarm enterprises and organizations (without construction enterprises).⁸ Economic practice gave rise to various forms of joint functioning of kolkhoz-cooperative and national property, that is, kolkhoz-sovkhoz formations, agroindustrial enterprises and associations and territorial--rayon, oblast and other--production associations.

As the productive forces of rural areas develop and as social relations improve, at the present stage there is an acceleration in the process of socialization of socialist production and labor. Kolkhoz-cooperative property approximates national property and, basically, the essential differences between them are overcome in the developed socialist society. The drawing together of classes and social groups of workers with respect to means of production, the nature and content of labor and the level of well-being is ensured on this basis.

As agricultural production is industrialized, profound changes take place in the way of life of the rural population. The features of industrial labor intensify in agrarian labor. In rural areas there is an ever greater number of machine operators and other workers connected with the latest equipment. In the 1970's the number of kolkhoz members with secondary and higher (complete and incomplete) education increased from 39 to 60 percent. The social and economic development of rural areas is characterized by changes in the social standards, social and psychological aims and requirements of the rural population placed on the conditions of work, life, rest and travel and on the use of free time.

Bringing the standards of living of the urban and rural population closer together has an ever greater effect on the further advance of agricultural production and increase in its efficiency. On the basis of qualitative shifts in the approximation of the two forms of socialist ownership of means of production and of the development of interfarm organizations changes occur in the social structure of society and its social homogeneity grows. The socialist state implements a systematic policy of bringing the levels of income of the urban and rural population, the working class and the peasantry closer together. For example, whereas in 1965 the real per-capita income of the population in the families of kolkhoz members comprised 75 percent of the real income of workers and employees, in 1979 it reached 89 percent and became almost the same as in the families of sovkhoz workers.

The equalization of the levels of income of the urban and rural population is determined primarily by the equalization of the level of its wages. Practice shows that the stage of mature socialism is characterized by an acceleration of the

FOR OFFICIAL USE ONLY

process of bringing the wages of agricultural workers closer to the wage level in industry and other national economic sectors. In 1965 the average monthly wages of kolkhoz members comprised 69 percent of the average monthly wages of sovkhos workers and in 1979, almost 78 percent. This is the result of the higher rates of increase in wages on kolkhozes, which increased 2.2-fold during the indicated period,⁹ whereas the average wages on sovkhos, 1.9-fold. The wages of kolkhoz members and of workers and employees are brought closer together. In 1965 the average monthly wages of a kolkhoz member comprised 54 percent of the average wages of workers and employees and in 1980, 70 percent. During the 10th Five-Year Plan the wages of kolkhoz members increased at outstripping rates. This tendency will also remain in the future. For example, in 1981-1985 the income of kolkhoz members from the public economy will increase by 20 to 22 percent and the average monthly wages of workers and employees, by 13 to 16 percent.

However, it should be noted that the development of the indicated process requires a further improvement in distribution relations. This is connected with a number of circumstances, that is, with the different level of wages of kolkhoz members and sovkhos workers by occupations and with the difference in the work time spent in the public economy by sovkhos workers and kolkhoz members. Therefore, the attainment of a great unity of employment of workers in the public economy of kolkhozes and sovkhos is one of the directions in the equalization of the wage levels of kolkhoz members and sovkhos workers. If the norms of labor are the same, the wage rates of kolkhoz members will actually become the same as those of sovkhos workers.

While the wage level of kolkhoz members is relatively high throughout the country, a significant differentiation of their levels depending on the income of kolkhozes remains. Among other things, this is explained by the fact that in the state sector wage differentiation is regulated in a centralized manner (in particular, through an increase in minimum wages). Such a mechanism is absent on kolkhozes. As a result, with the same labor expenditures the wage level remains different. It seems that economists proposing the establishment in the kolkhoz sector of a certain wage minimum for kolkhoz members common for the entire country, which would be increased as the minimum in the state sector is increased and as the income of kolkhozes grows, are right.¹⁰

Social consumption funds play an important role in bringing the levels of income of the urban and rural population closer together. The latter are of decisive importance in meeting the personal needs of kolkhoz members for education, medical services and social security. A number of important measures directed toward a fuller provision of kolkhoz members with benefits distributed through social consumption funds were implemented during 1961-1980. A law, according to which a unified system of pension and social security for kolkhoz members was introduced, was adopted in 1964. A centralized social security fund for kolkhoz members formed from the funds of kolkhozes and the state was established. In 1968 the procedure of establishment of the pension age of workers and employees was also extended to kolkhoz members. A unified procedure of calculation of pensions for workers, employees and kolkhoz members was introduced at the beginning of the Ninth Five-Year Plan. Measures for social insurance for kolkhoz members were implemented (temporary disability allowances were introduced). The proposal of the Union Kolkhoz Council on increasing during the 11th Five-Year Plan the minimum amount

FOR OFFICIAL USE ONLY

of the old-age pension for kolkhoz members to 40 rubles per month with a simultaneous increase in the minimum amounts of disability pensions and in case of loss of the breadwinner was adopted. The minimum length of the paid leave established for workers and employees is to be determined during the current five-year plan.

The concentration of the bulk of social consumption funds in the hands of the state is needed for the creation of conditions for meeting the immediate personal needs of kolkhoz members. Payments to kolkhoz members from social consumption funds play a decisive role in meeting the needs of their families for education and public health. All this contributes to an increase in the proportion of income from social consumption funds in the combined income of the kolkhoz family. It reached 19.3 percent in 1979 as compared to 14.6 percent in 1965. It significantly approached the proportion of the income from social consumption funds in the combined income of the family of an industrial worker, which comprised 23.1 percent in 1979. The development of the social consumption funds of kolkhozes as a form of national consumption funds is manifested in the integration of national and kolkhoz consumption funds and in the gradual formation of unified social consumption funds of town and country.

Systematically overcoming the essential distinctions between town and country presupposes bringing their cultural and domestic conditions closer together. In many rural regions there is now a shortage of well-planned housing, cultural and domestic institutions and good roads. All this creates certain difficulties in the formation of stable labor collectives, which leads to great losses. There are also essential distinctions in the absolute and relative use of social consumption funds in a number of directions, that is, in the provision with children's preschool institutions (in rural areas it is one-third of that in urban areas), in the use of housing benefits and in the lack of satisfaction of rural workers with rest homes, sanatoriums and so forth. The amount of social consumption funds per member of a kolkhoz family is two-thirds of that of a worker and employee.¹¹

The adoption on 19 July 1978 of the decree of the CPSU Central Committee and the USSR Council of Ministers "On the Further Development of the Construction of Individual Dwelling Houses and the Retention of Personnel in Rural Areas" is one of the measures for an improvement in the housing and domestic conditions in rural areas. This decree establishes preferential conditions for granting credit to newlyweds and young specialists and on farms with an acute shortage of manpower also to workers in mass occupations transferred to work on these farms. Credit is granted at an annual interest rate of 0.5 percent with liquidation in 20 years. At the same time, one-half of the amount of credit is liquidated by sovkhozes and other enterprises.

The capital investments allocated for the development of the nonproduction sphere of rural areas increase in the developed socialist society. After 1965 the capital investments of the state and kolkhozes in projects for nonproduction purposes totaled more than 40 billion rubles, or three-fourths of the investments in the social sphere of rural areas throughout the history of the Soviet state.¹² "Basic Directions in the Economic and Social Development of the USSR for 1981-1985 and for the Period Until 1990" pay special attention to this.¹³

FOR OFFICIAL USE ONLY

Consumer cooperatives,¹⁴ which service approximately 45 percent of the country's population, including more than 90 percent of the rural population, are of great importance in gradually overcoming the social and economic distinctions between town and country. The multisectorial activity of consumer cooperatives expands the sphere of economic activity of the country and its economic relations with the town. As public organizations consumer cooperatives, which unite more than 60 million members in their ranks, being schools of management in rural areas, occupy an important place in the political system of developed socialism and play a big role in the development of such important sectors of vital activity in rural areas as trade, public dining and the procurement of agricultural products and of a number of industrial sectors. Trade is the key sector of consumer cooperatives. Rural areas account for about 70 percent of the cooperative trade turnover. Under socialism the rates of retail trade grow more rapidly in rural than in urban areas. However, the gap in the level of turnover per urban and rural resident is not reduced. In 1965 it totaled 438 rubles, in 1970, 540 rubles and in 1979, 679 rubles. All this indicates that essential distinctions in the satisfaction of effective demand between town and country remain.

In the developed socialist society the role of consumer cooperatives intensifies. Basic Directions in Economic and Social Development note the following: "To maximally promote the further development of consumer cooperatives and increase in their economic initiative and activity in improving trade services and public dining in rural areas and augmenting raw material and food resources. To increase the production of the goods necessary for the population at the enterprises of consumer cooperatives as a result of a more efficient utilization of local supplies and raw materials, fattening of livestock and poultry and breeding and catching of fish in internal reservoirs. To more actively carry out work on the purchase of agricultural products from the population and kolkhozes, to expand the trade in these products in cities and industrial centers and to more fully utilize the possibilities for increasing the procurement of honey and wild growing fruits, berries, mushrooms, nuts and medicinal plants."

The private subsidiary plots of kolkhoz members, workers and employees occupy a special place among the problems of overcoming the social and economic distinctions between town and country. The integration of this small form of the economy with public production is now being intensified. The decree of the CPSU Central Committee and the USSR Council of Ministers "On Additional Measures To Increase the Production of Agricultural Products on the Private Subsidiary Plots of Citizens" stresses that "it is important to create everywhere a social climate in which kolkhoz members, workers, employees and other citizens would feel that, by breeding livestock and poultry on private subsidiary plots and engaging in gardening and horticulture, they perform useful state work."

When examining the economic role of the private subsidiary sector in the development of rural areas, it is necessary to take into consideration its dual nature. On the one hand, the private subsidiary sector is a component of the national economy and, on the other, in its economic nature it does not express the fundamental relations of socialism. Under the conditions of the incomplete integration of the public and private sector labor expended in the subsidiary sector is not directly public and the products produced in it, the object of state planning. A significant part of the output is consumed within this economy. With respect to

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

the labor expended in the public sector of kolkhozes or sovkhoses this labor is separate and not socialized. Labor is regulated indirectly, by the establishment of specific sizes of private plots of land and the maximum norms of the livestock population, as well as by the obligation of all kolkhoz members and sovkhos workers and employees to work in the public sector. With respect to the part of output of the private subsidiary plots of kolkhoz members, workers and employees received at the kolkhoz market, it is exchanged for money and is subject to an indirect cost accounting, that is, it acquires public significance at the market during its sale at relatively freely formed prices. The contradiction between the hidden public nature of labor in the private subsidiary sector and its nonsocialized form is resolved here.

In its economic nature the private subsidiary plot is an accompanying nonsocialized form of the economy at a large socialist enterprise. The relations between the private subsidiary plot and the socialist enterprise and society are based on the consideration of mutual interests. The private subsidiary plot appears as the sphere of application of the additional labor of associated producers. In accordance with the new model charter the kolkhoz board can help kolkhoz families in the cultivation of private plots, in the acquisition of livestock and in its provision with fodder and pastures, provide agro- and zootechnical services and so forth.

As the private subsidiary sector cooperates with the public sector, the nature of labor in it changes. Production is more and more carried out according to the general enterprise plan. Labor and product become the objects of planned regulation. Farms allocate the necessary means of production for the mechanization of labor intensive processes on private subsidiary plots. For this purpose, according to the decree of the CPSU Central Committee and the USSR Council of Ministers "On Additional Measures To Increase the Production of Agricultural Products on the Private Subsidiary Plots of Citizens," leasing centers will be established in rural areas. An improvement in the technical servicing of the private subsidiary plots of kolkhoz members, workers and employees presupposes an increase in the production of small-scale mechanization equipment and the appropriate set of orchard and garden implements.

The private subsidiary sector contributes to an increase in the production of agricultural products and to a better use of labor resources, especially the labor of women and pensioners, in rural areas. It is a certain additional source of income of kolkhoz members, workers and employees. In 1979 the income from the private subsidiary sector comprised 26.9 percent in the combined income of families of kolkhoz members and 0.8 percent in the combined income of families of workers. In the future the private subsidiary sector will gradually lose its significance in the formation of the country's food resources and in the equalization of the income of town and country. It will be transformed into a form of housekeeping, into amateur work, into a sphere of physical activities and so forth.

Thus, in the developed socialist society new social and economic prerequisites are created for overcoming the essential distinctions between town and country, because, basically, such important problems as the transfer of agriculture to an industrial basis and the transformation of agrarian labor into a variety of industrial labor will be solved at this stage of construction of communism. Profound changes will take place in the social structure of rural areas and the difference in the

FOR OFFICIAL USE ONLY

social status of the worker and the peasant will be abolished. However, as L. I. Brezhnev said in the accountability report at the 26th CPSU Congress, "a great deal of effort, time and money is still needed to improve the cultural-domestic living conditions in rural areas and to overcome the essential distinctions between town and country." The approximation of the two forms of socialist property and the development of interfarm organizations, in which kolkhozes and state enterprises participate, have a great effect on the solution of this problem. The changes in the forms of labor and wage organization of kolkhoz members and the application of the social security system established for workers and employees to them are also of great importance.

Overcoming the social and economic distinctions between town and country presupposes a study of the specific nature of the present stage in the development of rural areas, which, on the one hand, lies in the need for an overall, interconnected transformation of the most important working and living conditions of the rural population and, on the other, in the need for the attainment of a qualitative change in these conditions, which in the most important social characteristics are gradually equalized with the working and living conditions of the urban population.

When working out programs for the social and economic development of rural areas and incurring capital expenses, it is advisable to take into consideration the increasing role of social factors. From the point of view of the practical realization of this principle under present conditions singling out the social and economic measures directly connected with the expanding processes of industrialization, specialization and concentration of agricultural production and of agrarian and industrial cooperation is of the greatest importance. This will make it possible to solve a number of social problems of rural areas with smaller expenditures and in some cases without the allocation of special investments for these purposes.

FOOTNOTES

1. It is a question of the development of the town as an industrial center and of the country, only as the sphere of application of agricultural labor.
2. "Ekonomicheskoye Polozheniye Kapitalisticheskikh i Razvivayushchikhsya Stran" /The Economic Situation of Capitalist and Developing Countries/, Izdatel'stvo Pravda, 1980, p 69.
3. K. Marx and F. Engels, "Soch." /Works/, Vol 3, p 50.
4. At the stage when, basically, the socialist society was built, the socialist system of production began to exercise complete sway both in town and in country. For example, whereas in 1928 the proportion of the socialist economy in gross output comprised 3.3 percent, in 1937 it comprised 98.5 percent.
5. Without taking into consideration sovkhov workers engaged in the repair of agricultural equipment.
6. In 1978 interfarm enterprises (without construction enterprises) accounted for only 2.3 percent of the productive fixed capital for agricultural purposes, 11.8 percent of the productive fixed capital for nonagricultural purposes and 2 percent of the average number of workers on the strength.

FOR OFFICIAL USE ONLY

7. See VOPROSY EKONOMIKI No 11, 1980 pp 29-30.
8. See VOPROSY EKONOMIKI No 11, 1980 p 33.
9. The further development of kolkhoz production, transition to guaranteed monetary wages and application of the social security system established for workers and employees to kolkhoz members contributed to this.
10. See V. F. Mayer, "Uroven' Zhizni Naseleniya SSSR" /The Standard of Living of the USSR Population/, Izdatel'stvo Mysl', 1977, p 216.
11. See A. A. Kostin, "Rost Narodnogo Blagosostoyaniya--Glavnaya Zabota Partii" /Rise in the People's Well-Being Is the Main Concern of the Party/, Izdatel'stvo Ekonomika, 1977, p 48.
12. See VOPROSY EKONOMIKI No 1, 1980, p 78.
13. "To carry out at outstripping rates the construction of well-planned dwelling houses..., children's preschool institutions, clubs and other projects for cultural-domestic purposes in rural areas. To increase the capital investments for these purposes by 39 percent. To increase the provision of rural settlements with centralized heat and gas supply, water supply and sewer systems. To expand the scale of construction of intrafarm hard-surface roads."
14. As of 1 January 1980 the value of all the capital of consumer cooperatives totaled 17.310 billion rubles, including fixed capital, among it the regulation fund of the Central Union of Consumer Cooperatives, 14.229 billion rubles, special funds, 2.336 billion rubles and the share fund, 747 million rubles. As an economic system consumer cooperatives form part of the single national economic complex. They carry out about 30 percent of the country's retail trade turnover, 40 to 60 percent of the procurement of more than 60 important types of agricultural products and raw materials and the production of consumer goods worth about 6 billion rubles and make capital investments amounting to 1 billion rubles.

COPYRIGHT: Izdatel'stvo "Pravda", "Voprosy ekonomiki", 1981

11,439
CSO: 1820/234

FOR OFFICIAL USE ONLY

ECONOMIC POLICY, ORGANIZATION AND MANAGEMENT

KRONROD EXAMINES MANAGEMENT, INCENTIVES MECHANISM

Moscow VOPROSY EKONOMIKI in Russian No 6, Jun 81 pp 80-91

[Article by Ya. Kronrod: "The Management Mechanism and Competition"]

[Text] Comprehensive, internal improvement within the system of the management mechanism is a significant aspect of the development of the economic relations of developed socialism. In the Accountability Report of the CPSU Central Committee to the 26th party congress L. I. Brezhnev, speaking of management at the association and enterprise level, observed: "We have accumulated a great deal of diverse experience. And exactly what this experience tells us is that we must continue searching. The general direction of this search, it appears, should be toward broadening the independence of associations and enterprises and expanding the rights and responsibility of economic managers." One of the important and promising aspects of meeting this challenge is finding, testing, and implementing in the economic mechanism such an effective stimulus to production development as competition in the economic activities of enterprises. Using Lenin's terminology, we will call this economic competition.

The issues of the importance of socialist competition in the economic development of our society have been thoroughly worked out by Marxist-Leninist theory and proven by long years of economic experience. "Socialism gives birth to a new attitude toward labor. One of its vivid manifestations has been and remains socialist competition," the materials of the 26th CPSU Congress observed. Competition with participation by laborers, workers, kolkhoz members, and the intelligentsia is a powerful, specifically socialist force in the development of production forces and improving the production relationships of mature socialism. Competition is a tool to improve our economic and social plans, and to disclose and utilize labor, material, and financial reserves. Competition is one of the fundamental sources of the dynamism of the socialist economy, resolution of its contradictions, and raising its efficiency.

The inseparable tie between socialist management and competition is obvious in theory and practice.

V. I. Lenin, working out the theory of socialist competition and pointing to the enormous part it was to play in the new society, demonstrated that socialism,

FOR OFFICIAL USE ONLY

while rejecting the specifically capitalist form of competition, developed a different form of competition among socialist laborers and collectives. It is based on the unity of their competitive labor and all-encompassing mutual assistance in the interests of the entire society. It was his thought that in the overall process of socialist economic activity there is a special domain of competition, and economic competition is a special facet of it.¹ This statement by Lenin reflects, I believe, Marx's view that socialism replaces the competitive struggle for profits typical of capitalism with industrial competition.

But what are the specific features of economic competition, and what place does it have in the general process of socialist competition? When we speak of competition as a whole, we can identify two specific aspects in it. One of them (the one that has been most highly developed in theory and practice) is socialist competition among the immediate participants in production, individual and labor competition to achieve the best results. The subjects of this facet of socialist competition are individual workers or collectives; the object is the results of their labor. The other facet of competition, which unfortunately has not been developed nearly as thoroughly in theory and practice, includes socialist competition among enterprises, associations, subsectors, and even entire sectors, economic regions, cities, and the like. In this case the subjects of competition are management units of public production that are relatively independent in economic terms. The object of competition is to achieve the best results from economic activity as a whole, carry out national economic plans, raise production efficiency, intensify production, achieve technical progress, conserve past and live labor, make production profitable and the like.

The elements of competitiveness are disclosed in the basic economic forms of the socialist process of production. For example, let us take the formation of cost accounting (khozraschet) incentive funds. Each association and enterprise forms larger or smaller incentive funds, in absolute and relative terms, depending on successes in achieving the best economic results and carrying out economic plans for raising labor productivity, improving the quality of output, raising profitability, and the like. Each association or enterprise, delivering its output at uniform nationwide prices, receives profit depending on its individual production costs in conformity with the results of participation in economic circulation (this is the sphere of cost accounting realization of production successes). Therefore, earnings from sale of output and price are definite economic parameters of enterprise competition to reduce individual expenditures to socially necessary expenditures and further. In other words, the law of value is used as an effective implement of economic competition.

Let us turn to the sphere of the investment process. Here too it is those associations and enterprises which are most successful in technical modernization of

¹See V. I. Lenin, "Polnoye Sobraniye Sochineniy" [Complete Works], Vol 36, p 191. Lenin emphasized that work must be organized in such a way that "comparing the work results of individual communes becomes a subject of general interest and study, so that leading communes are immediately rewarded (by shortening the work day for a certain period, a raise in wages, granting more cultural or esthetic benefits)" (ibid., p 192).

FOR OFFICIAL USE ONLY

production, create output with better technical features at lower expenditures, and best satisfy public needs that will enjoy public priority in receiving investment capital for expanded reproduction.

In fact there is perhaps no economic aspect or form of production and economic circulation which is not immediately and directly or at least indirectly and by mediation involved to some degree in competitive relationships.

Needless to say, labor and economic competition form an unbreakable unity. Labor competition and its results are the basis, the foundation of economic competition. Economic competition creates the conditions for labor competition, serves as a source of labor incentive, and the like. Furthermore, experience has developed forms in which labor and economic competition are merged and is constantly developing new ones. Counter planning is such a form; it is one of the most significant manifestations of socialist competitive activity by the working people, expressing the process of their labor competition. At the same time, by becoming a part of the state plan of associations and enterprises, the counter plan serves as a form and object of economic competition.

The nature of socialist production relationships, which includes the relationships of socialist competition, gives economic competition an important role in the system of the management mechanism. The competitive spirit raises the progressive, stimulating role of forms of competition in regulating the economic process; it is aimed at constant development of the economic mechanism in conformity with the needs of economic development, fosters the disclosure and elimination of shortcomings in it, and so on.

With all the diversity and multiplicity of the relationships between the management mechanism and economic competition, three of these relationships play special roles: economic competition and the formation of cost accounting funds; material incentive for scientific-technical progress; and, improving economic circulation.

Economic Competition and Cost Accounting Incentive Funds

To develop the economic initiative of labor collectives and expand the rights of production associations and enterprises, the decree of the CPSU Central Committee and USSR Council of Ministers entitled "Improving Planning and Intensifying the Influence of the Economic Mechanism on Raising Production Efficiency and Work Quality" envisions a transition to forming economic incentive funds on the basis of stable norms with differentiation by types. The determination of norms in this case is oriented primarily to the qualitative indicators of production activity established in the plan. The material incentive fund should be formed out of profit according to a combination of, for the most part, the following fund-formation indicators: growth in labor productivity, production of high-quality output, and fulfillment of the plan for deliveries of output in conformity with contracts. It is also possible, depending on the specific characteristics of the sector, to adopt an orientation to various other qualitative indicators such as conservation of material resources, raising output-capital ratio, increase in the level of profitability, and reducing the prime cost of output.

FOR OFFICIAL USE ONLY

Thus, the principles of formation of cost accounting material incentive funds are oriented to the key qualitative results of enterprise or association economic activity and to maximization of these results by every means. The sources of fund formation — profit and fund-formation qualitative indicators — take shape under the influence of socialist competition, both labor and economic competition. Thus, the cost accounting economic incentive funds are a form of realizing this great potential for the functioning and development of socialist production. However, it is precisely in the relationship between cost accounting incentive funds and the organization of economic competition that substantial opportunities, which are far from utilized, lie.

The first thing to be mentioned is that in its current condition this form of relationship is mediated by a large number of complexly interacting economic factors: price, profit, individual plan norms, resource priorities, and the like. Therefore, its impact is very weak and felt only in the final result. Moreover, although a great deal has been done to avoid such negative factors as providing incentive for associations and enterprises to receive easy plans, conceal reserves, and the like, the system of formation of cost accounting incentive funds by no means precludes these possibilities. Whereas earlier the chief manifestation of the action of this factor was annual planning, today it has been applied to five-year plans. Because realization of the output plan taking into account performance of contracts is becoming one of the important annual evaluation and fund-formation indicators, it is apparent in this case too that there may be those who are fond of "easy accomplishments." This also applies in one degree or another to all the other norm-established indicators of economic activity: prices, wage norms, norms for deductions from profits, and the like. The possibility of this negative trend is obvious. Needless to say, the main way to neutralize it is to raise the scientific level of planning, to introduce progressive, technically sound norms more broadly and consistently, to use the initiative of labor collectives in counter planning, and so on. At the same time it is necessary to use another important means of inspiring enterprises and labor collectives to achieve maximum qualitative and quantitative results from production activity, to disclose and use reserves, and to adopt and carry out stepped-up plans. We are referring here to those objective possibilities which are contained in economic competition as a directly "working" factor of economic activity.

Associations and enterprises that specialize in the production of a particular type of output are usually not absolutely unique. For all their individual differences (in capacity, structure of output, raw materials, transportation conditions, and the like), within the limits of subsectors or at least groups of enterprises they have very similar technical-economic and economic characteristics. Naturally, for exactly this reason the economic results by subsectors or groups of enterprises or associations, specifically the rate of growth of final output, rate of growth of profit, level of profitability, rate of growth of labor productivity, and the like, are not simply formal average statistical values; they are manifestations of the inevitable, objective results of the process of reproduction in the concrete economic conditions of each particular period (year, five years, and the like). The theoretical and practical importance of this proposition is very great.

FOR OFFICIAL USE ONLY

But how do average subsector (or group) data influence the economic incentive process? In our opinion, under contemporary conditions this takes place only in the mediated form discussed above. At the same time there is an objective possibility and an increasingly insistent need for the process of economic stimulation to rely, through the cost accounting funds, on direct, immediate comparisons of actual individual economic results of the work of associations and enterprises with actual subsector and group results. This would make it possible to turn this interrelationship into an implement for the effective, efficient functioning of socialist economic competition. It is objectively possible and necessary to put constant, daily pressure on the economic incentive of the associations and enterprises based on the results actually achieved by the particular subsector or group of related associations or enterprises. We mean that the individual economic incentive funds should also be directly correlated with the actual ratio between individual and average subsector (or group) results.

This kind of correlation can be represented in principle as follows. The ratio of average results of the subsector or group of associations or enterprises to the individual results of each of the associations or enterprises of the particular group for each given period (such as a year) should be the indicator on whose basis the economic incentive funds are increased or decreased. Among the results referred to are the rate of growth in profit, labor productivity, sale of output considering performance of contracts, and the like. Let us suppose that the volume of the material incentive fund established by norms for four associations or enterprises of a subsector depending on the fund-formation indicators adopted in the particular year (as a percentage of profit) are four percent for enterprise A, five percent for enterprise B, five percent for enterprise C, and seven percent for enterprise D. At the same time, the average level actually realized for this indicator, for example average annual rate of growth in profit, for the subsector is 10 percent, whereas the individual results are eight percent for enterprise A, 12 percent for enterprise B, 10 percent for enterprise C, and nine percent for enterprise D. The ratio of the average result (10 percent) and the individual results (8, 12, 10, and 9 percent) should be the basis for the normative scale for formation of the material incentive fund.

Increase or Decrease in the Incentive Fund Depending on the Ratio Between Individual and Average Sectorial Results of Economic Activity (Hypothetical Figures).

| Ratio of Individual Rate of Growth in Profit to Average Rate (%) | 80-89 | 90-99 | 100-109 | 110-119 | 120-129 |
|---|-------|-------|---------|---------|---------|
| Percentage of Decrease (-) or Increase (+) in Norm-Set Volume of Material Incentive Funds | -15 | -5 | +10 | +18 | +25 |

Thus, in this example the material incentive fund determined by set long-term norms depending on the ratio of actual individual and average sectorial annual

FOR OFFICIAL USE ONLY

results will be reduced by 15 percent for enterprise A to 3.4 percent; for enterprise B it will be increased by 25 percent to a figure of six percent, while for enterprise C it will be increased by 10 percent to 5.5 percent, and for enterprise D reduced by five percent to 6.5 percent. This is only a simplified diagram, of course, to illustrate the principle itself. In reality, it may be structured taking into account a combination of qualitative indicators (profit, labor productivity, quality of output, performance of the plan for contract deliveries, and the like) with greater or lesser intensity of economic incentive fund increments or decrements.

But what is the essential feature of direct correlation of individual and average sectorial (group) actual results and norms for the formation of economic incentive funds? The essential point, evidently, is in the fact that the cost accounting mechanism directly includes economic competition among enterprises or associations based on material incentive. In this case, there is not just an economic incentive to achieve maximum realization of all established plan parameters, but to do so where all the participants in competition have incentive to achieve better results than the actual results of the associations (or enterprises) of the given subsector or group taken together.

Implementation of these proposals precludes an interest in achieving easy success and getting "easy" plans. Suppose that an association or enterprise has been able to adopt an "easy" plan. In this case the association or enterprise is doomed either to lag behind in economic competition or to fall far short of receiving these economic benefits which it makes possible. Such an association or enterprise will inevitably have results lower than the average for the subsector or will exceed these results to a much smaller degree than it could have. In either case it will be punished economically. By contrast, the more fully it utilizes its reserves and the more intensive the plans it adopts are, the greater its chances it will be in economic competition and the higher the level of growth in material incentive funds calculated by norms will be.

It seems to me that these forms of direct relationship between formation of economic stimulation funds and economic competition are one of the important areas of the search to elaborate those fundamental principles of improving the economic mechanisms which were defined by the 12 July 1979 decree of the CPSU Central Committee and USSR Council of Ministers. We will believe it would be wise to make an experimental test of the system proposed above to decide the question of its later introduction.

Economic Competition and Technical Progress

The decree on improving the economic mechanism outlined a system of steps to insure the introduction of scientific-technical advances. At the same time, there are great and still-unused opportunities for effective stimulation of these processes by means of economic competition.

The system reviewed above for directly linking the results achieved by associations and enterprises in economic competition with the formation of incentive funds aims chiefly at technically progressive development of production. But this link is not oriented specially to technical progress. In point of fact,

FOR OFFICIAL USE ONLY

relatively better production results from work are also achieved by better use of material and labor reserves, the action of organizational-technical factors, and to some degree as the result of favorable circumstances, among other considerations.

Meanwhile, the challenge is to see that economic competition by its definite forms is directly oriented to supporting technical progress and operates as an inseparable element of the management mechanism. This can be accomplished by the use of special forms of economic competition among associations and enterprises that promote growth in the technical level of production. This problem is certainly a complex one and has been little-studied, but it is unquestionably soluble. The chief difficulty and at the same time the key to solving it is an objective, economically adequate expression of the technical level of the associations (or enterprises) of the particular subsector or a homogeneous group. This expression, needless to say, is impossible on the basis of direct technical and technological comparisons. But the system of economic parameters which reflects the dynamics of the technical progress of associations and enterprises is capable of expressing it with adequate completeness and reliability.

The degree of increase in the technical level of production ultimately manifests itself in dynamic changes in four economic parameters: output-capital ratio, conservation of materials used in production, labor productivity (or capital-intensiveness, materials-intensiveness, and labor-intensiveness of the output being produced), and finally, production of technically progressive output. The difficulty, however, is that the technical level rises depending on particular changes in these economic parameters, which may go in different directions. A rise in the technical level of production through the introduction of progressive new machines, machine modernization, or introduction of progressive new technological processes may lead to an increase in the output-capital ratio or to a decrease in this ratio.

In both cases the process may be economically rational if it provides at the same time a compensating savings of raw and processed materials and energy, growth in the productivity of live labor, the production of technically progressive output that provides a corresponding national economic savings, and the like. The same thing applies to the two other parameters: savings of materials and growth in the productivity of live labor. Their action in different directions is expected not only to compensate for one another but ultimately to produce a savings. Therefore, objectively speaking, from an economic standpoint the technically progressive level of production rises when the four above-listed principal parameters, no matter what direction each of them individually may move, together produce an overall decrease in socially necessary expenditures of labor per unit of output produced. But this cannot be expressed simply by a change in prime cost or profitability of output because of the many factors involved in changes in the resulting indicators. Therefore, we need a relatively independent specific economic measure of dynamic changes in the technical level of production. It seems to us that this measure can be an integrated index of the dynamics of the technical level of production, obtained as the ratio of the sum of savings (or excess) of

FOR OFFICIAL USE ONLY

expenditures to create a unit of output through each of the four factors (capital-intensiveness, materials-intensiveness, labor productivity, and the economic impact of newly produced progressive output) to the total sum of expenditures.

Suppose that in the past year a given subsector (group) has achieved a total savings of 100 rubles per unit of output through these four factors, and the savings can be broken down to 30 rubles (according to calculated expenditures) from reducing capital-intensiveness, 40 rubles from reducing materials-intensiveness, 25 rubles from raising labor productivity, and five rubles as savings from newly incorporated progressive output. The total subsector (group) integrated economic index of growth in the technical level of production where a unit of output costs 1,000 rubles will be 10 percent (100/1,000). Corresponding indexes are computed for the actual results of the work of the enterprise, association, and subsector or group. It is on the basis of the ratio between the subsector (group) and individual indexes of growth in technical level that the degree of achievement of each particular association or enterprise relative to its subsector or group as a whole is determined and specific material incentive for raising the technical level is organized.

What we are referring to is forming a special material incentive fund for technical progress from the savings achieved through these four economic factors that reflect growth in the technical level and seeing that the formation of this fund depends on the ratio of individual integrated indexes of the technical level of associations and enterprises to the average sectorial index.

This form of economic competition creates effective incentives for enterprise collectives to work on a daily basis for technically progressive development, intensification of production, and greater production efficiency.

A number of questions arise in connection with the formation of a special material incentive fund for technical progress. In our opinion, such a fund must be the same as the material incentive fund but not merged with it, in view of its specific function of direct economic stimulation for raising the technical level of production. Therefore, its source of formation should not be the entire amount of net profit (as is the case today with formation of cost accounting incentive funds), but only the part of profit obtained through the increase in production efficiency resulting from the rise in its technical level. The share of the different elements through which this part of profit forms should be differentiated depending on the nature of the sector. For example, in one case a relatively small share may come from increase in capital-intensiveness, while in another a large share or the entire amount may arise from savings of material expenditures, while in a third a smaller share may come from growth in labor productivity (through growth in the capital-labor ratio), and in a fourth the entire amount may be received through price supplements for progressive output. Earnings from sale of licenses for the organization's own design developments and original technology may be a supplementary source for formation of this fund. Licenses are not currently sold in domestic circulation, but the consistent development of cost accounting relations demands that innovative enterprises which bear the costs of developing new

FOR OFFICIAL USE ONLY

equipment and technology should be reimbursed when they pass their development on to other enterprises. Investment credit for technical improvements of production could also play a certain part, especially in the initial formation of this fund.

The fund should be formed gradually, as the sources from which it is formed grow, but in the long run it should be quite significant, reaching some 10 percent of wages. Ultimately it should be a variable element in wages.

The use of this fund is an important issue. It should be the chief bonus resource for effective and differentiated incentive to engineering-technical personnel and workers who contribute to technical progress. A purposeful and effective form of distribution of the fund is weighted, progressively increasing bonuses for development and sale of technical improvements, inventions, and discoveries depending on the volume of the national economic impact and the corresponding technical novelties. Along with creation of this fund, of course, there should be a fundamental improvement in practices of giving material incentive to personnel who support technical progress. This incentive should be free of the numerous obstacles that lower its level and mitigate its impact.

Economic Competition and Economic Circulation

The principles of economic competition are used least, perhaps, in material-technical supply to enterprises and in wholesale circulation of means of production and objects of consumption generally (before they reach the retail trade network). The present system of deliveries based on allocations is being improved. Specifically, the increasing introduction of stable, direct ties, the transition to evaluating enterprise work and providing incentive depending on performance of contracts, and the development of forms of cost accounting in the supply and marketing system are significant steps forward. The modest expansion of wholesale trade outside the allocation system is also good. However, there are still serious shortcomings characteristic of the established forms of economic circulation. The 26th Congress of the CPSU emphasized the great importance of correct management of production stocks.

The most significant defect of the resource allocation system is often discerned in the fact that it seems to contain an incentive to stockpile excess material resources. This leads to the creation of artificial shortages, slows down the circulation of resources, and so on. Indeed, the allocation system is complicated and often too inflexible from the standpoint of maintaining the essential ratio between elastic, fast-changing production needs, and supplying them with material resources. It is fairly common for excess resources to accumulate in certain elements of production while others are short of them. "We cannot tolerate a situation," said N. A. Tikhonov in his report at the 26th CPSU Congress, "where many enterprises keep above-norm equipment and raw and processed materials, especially metals, at the same time as others are short of them."

Considerable material losses also ensue from the practice of allocating resources that do not completely meet production needs in a technical-economic

FOR OFFICIAL USE ONLY

respect. But the principal shortcoming of the allocation system, we feel, is on another plane. This is the fact that with established forms the organization of distribution of material resources by allocation is divorced from economic competition, from the system of economic stimuli that give both suppliers and consumers incentive to work for technically progressive development of production. This is a result of the fact that supply by allocations in its current forms introduces certain elements of automatism into economic circulation, more exactly into the process of selling output, and gives it a kind of formalistic character.

Centralized distribution agencies decide where, when, to whom, and what kind of allocations for material resources will be issued and realized. The user realizes these allocations accordingly. But in this situation he has no practically significant economic means of influencing the producer to deliver better, technically progressive output. In economic terms, by the very nature of the process of disposing of output, the producer in turn has no incentive whatsoever to improve the technical level of output. The allocation system today does not give the customer the choice of a supplier who provides better, technically progressive output with more efficient delivery conditions. Nor does the situation offer alternatives to the producer: no matter what output the producer may produce (relatively backward in technical terms, expensive, unsatisfactory in terms of quality, and the like), it will all be included in allocations, which is to say sold, because it was manufactured according to plans.

But there is a real opportunity to improve the system of allocation deliveries on the basis of economic competition and the action of real incentive to qualitative improvement in the disposal process. In our view, the allocation system can and should include a pre-allocation stage of economic competition among producers to establish portfolios of deliveries on the basis of offering technically improved output, better-quality output, better delivery conditions, and the like. What we are saying is that the processes of establishing allocations should begin with negotiations on delivery between customers and suppliers (within limits established by Gosstab), and every consumer should have the possibility of establishing contact with a number of suppliers and selecting the one that is most suitable from the standpoint of output offered. Then allocations should be established according to agreements reached by suppliers and customers, within the limits set by Gosstab agencies. In other words, a portfolio of orders would be formed and final contracts (long-term, medium-term, and current) would be concluded. This entire system, of course, should cover deliveries based on direct links also.

Such an allocation system, based on economic competition among suppliers, has several advantages. In the first place, it more effectively precludes automatism and formalism in disposal of output. In the second place, it would stimulate the producer to raise the technical level of output in order to make up a good delivery portfolio. In the third place, it would give customers a realistic means of exercising economic influence on suppliers.

Needless to say, the proposed combination of the allocation distribution system and economic competition is a complex matter that requires revision of many established forms and, possibly, the surmounting of some biases that still hinder

FOR OFFICIAL USE ONLY

the allocation process. Breaking through these biases would also unquestionably promote the "shaping of contemporary economic thought" spoken of by L. I. Brezhnev at the 26th CPSU Congress. This will require a significant bolstering of the maneuverability of supply agencies and the development of truly commercial initiative by the associations and enterprises which are suppliers and customers, as well as overcoming a certain psychological barrier.

In addition to the above-considered steps to include the allocation system, it can be very important to develop a new form of organizational planning for wholesale trade in those types of material resources of which there is no significant shortage, whose production and consumption are balanced, and which permit the creation of essential reserves. In this case allocation could be effectively replaced by deliveries based on contract ceilings.

In concrete terms, this system appears roughly as follows. With the goal of filling the delivery contracts of an association, the customer enterprises receive a consolidated unaddressed ceiling on the right to conclude a contract with a freely chosen supplier (for example, for 1,000 tons of cast iron, 10 machine tools of a particular design and type-size, 10,000 meters of certain types of fabrics, and so on) from Gosnab and its agencies within the framework of the planned balance of the particular commodity (means of production and objects of consumption). The associations and enterprises that have received ceilings are also given the right within certain limits (20-25 percent) to transfer them to other associations at their own discretion either free of charge or in exchange for ceilings on other output which they have received. Contracts for delivery concluded within the framework of the allocated ceilings are subject to final ratification by Gosnab agencies which, if necessary, may adjust them. This insures ceiling discipline and a planned basis for deliveries within the framework of this form of economic circulation.

The transition to new forms of organizing the allocation process, developing ceiling-based wholesale trade as well as wholesale trade in means of production outside the conventional allocation and ceiling systems (we will not discuss this matter specially because the question of its advisability as the economic prerequisites develop has long been settled), will also demand broader use of such forms of economic circulation as wholesale fairs — not only in consumption goods but also means of production, specialized commodity markets, and broad commercial information and advertising. A full-fledged commercial service will have to be established within the directorship of associations and enterprises and headed by a commercial director (deputy to the general director of the association or enterprise director) with broad authority.

The system of allocation on the basis of economic competition in disposing of output, ceiling-based wholesale trade, and wholesale trade without allocations and ceilings — all these taken together will make up a whole system of economic incentives. In the first place, only technically improved, high-quality and relatively inexpensive output marketed by means of competitive contracting will give suppliers a full and advantageous portfolio of orders. In the second place, stepped-up, technically progressive plans are more important because this is the only way to increase the chances of success in economic competition and in

FOR OFFICIAL USE ONLY

the marketing sphere. In the third place, the distribution of material resources will be incomparably more adapted to production needs and will give all economic circulation greater flexibility, mobility, and operationality.²

Economic Competition and Certain General Conditions of Its Functioning

The above-considered aspects of the relationship between, improvement of, and strengthening the effectiveness of the economic mechanism and economic competition presuppose general conditions in which this relationship would be realized most completely and productively. Above all this refers to price formation. There are still today two levels of prices, for means of production and for consumption goods. The gap between them is significant. Thus, calculated per ruble of wages in the final price of consumption goods, the volume of surplus product is several times greater than the same ratio in the price of means of production. It is even more significant that the deviation of prices from ONZT [socially necessary labor expenditures] or, which is the same thing, from social cost, varies greatly in different sectors along the chain of reproduction from the extracting sectors to the sectors that produce the final output. All this, of course, disrupts a realistic reflection of change in ONZT in the cost calculation and, consequently, in computing net output. Meanwhile the transition to normative net profit as the principle evaluation indicator of change in production volume, the basis for determining labor productivity, wage norms, and the like demands that prices provide the most realistic reflection possible of the costs they contain, in other words, that they be as close as possible to ONZT. The whole organization of economic competition objectively demands the same thing. It will be more effective where there is more profit and changes in profit, both individual and for the sector or group on the average, as well as part of the savings obtained through the factors of technical progress, are based on real change in cost, in socially necessary labor expenditures. At the present time where the profit norms must be determined in the price, which corresponds to the wages norm, a need has arisen to improve prices and switch to determining the level of wholesale prices on the basis of ONZT. The question of price discounts and supplements for obsolete and new, technically progressive output, the issue of step-by-step prices, has been basically decided. Effective implementation of the new price formation system will also create favorable soil for economic competition. In our view, the practice of using price "scissors" of about 7-10 percent should be gradually introduced. This can serve as an additional means of raising the economic efficiency of contract relations and giving the customer influence over the supplier under conditions of distribution by allocation, including the forms of economic competition considered above as well as ceiling-based wholesale trade.

Another condition is enhancing the role of all forms of credit. Implementing the aspects of economic competition considered above will stimulate associations and enterprises to use efficient new technical concepts. Often this will occur not only during ratification of plans but during the process of carrying them

² The enterprises that do not succeed in competition and do not fill their order portfolios will have to be switched to a special economic reconstruction status; it may even be necessary to give them a new technical reorientation or change their specialization.

FOR OFFICIAL USE ONLY

out. This is where the role of credit increases. At this time, in our opinion, three things are necessary. First, there should be a significant rise in the interest rate (to 5-6 percent) with sufficient differentiation. Second, interest should be charged beyond the payment for capital in the case of credit invested in the creation of fixed capital. The principle here is that all active capital should receive incentive to attain equal circulation conditions for the payment on capital. Interest on credit is a cost accounting payment for the use of credit and part of the profit received by the organization. Third, an interest rate, for example 2-3 percent, should also be instituted for budget investment capital granted to associations and enterprises by a customer. The purpose here is to provide economic incentive for those who receive state investment to determine the amount of this investment in a sounder manner and to put the production facilities created with this capital into operation as quickly as possible. The development fund can be the source from which this interest is paid.

The development of economic competition makes the problem of material reserves, an essential element of a fluid economy, more pressing. Rational, planned accumulation of reserves at all levels, from associations and enterprises to ministries, is becoming more important than ever before.

The most important overall condition for implementing economic competition in all its aspects is insuring that associations and enterprises have the work force they really need and work out a set of socioeconomic measures to attract the necessary workers and keep them from leaving. The time has come to set up agencies that not only mediate in the redistribution of work force, but also organize retraining so that associations and enterprises can be completely freed from the work of finding jobs for employees that are released.

The 11th Five-Year Plan envisions completion of the transition to associations as the principal economic unit. This is creating favorable conditions for the development of economic competition. The larger the associations are, the greater the opportunities for competition will be. The development of optimally large complexes of contemporary specialized production within the framework of associations that provide a contemporary level of concentration and specialization of production and have adequate rights to carry on independent economic activity within the framework of a rational complex of centralized national economic plan assignments will make it possible to insure efficient use of the economic mechanism and guarantee more favorable conditions for the development of economic competition.

COPYRIGHT: Izdatel'stvo "Pravda", "Voprosy ekonomiki", 1981

11,176
CSO: 1820/229

FOR OFFICIAL USE ONLY

REGIONAL DEVELOPMENT

REVIEW OF BOOK ON REGIONAL PLANNING

Moscow VOPROSY EKONOMIKI in Russian No 6, Jun 81 pp 133-136

[Review by V. Pavlenko and O. Nekrasov of book "Territorial'no-otraslevoy printsip planirovaniya. Teoriya i praktika" [The Regional-Sectorial Principle of Planning. Theory and Practice]. Edited by Prof B.M. Mochalov. Moscow, "Mysl'", 1980, 254 pages]

[Text] Many readers' attention probably has been especially drawn to the unexpected title of the reviewed monograph.¹ Actually, "sectorial" and "regional" principles of planning and management are usually studied not only in the specialized, but also in educational literature; an objective is set of achieving their unity or proper combination, which should play an important role in ensuring effective development of the national economy. Let us note at the outset: the book has not succeeded in proving the existence of an independent "regional-sectorial principle" in socialist planning. Moreover, it is not even referred to in the book. Therefore, while "intriguing" the readers, the authors nevertheless have not succeeded in providing a basis for their claim to such an unexpected perspective for the study. This could not be done because the "regional-sectorial principle of planning" simply does not exist either in theory or in planning practice.

The subject of analysis in the work, however, were more "traditional" questions, which were composed and grouped into two sections: the first of them deals with methodological problems of combining "principles of sectorial and regional management" and the second with improvement of the forms of such combination. On the whole, this has made it possible to differentiate sufficiently clearly on the basis of the sections the range of problems touched upon in the book. In analyzing the problems of methodology of combining the principles of sectorial and regional management, the authors investigated the developmental laws of public production, economic organizational problems of the formation and development of the production apparatus, the regional structure of the national economy, functions and methods of planning of regional social-economic systems and the place of regional-production complexes in the system of planning.

The first section of the monograph ends with a chapter that studies the economic mechanism of management of the economy under the conditions of developed socialism.

1. The collective of authors consists of: F.M. Rusinov, V.I. Chumakov, V.K. Savel'yev, R.V. Korneyeva, V.A. Popov and V.N. Mosin.

FOR OFFICIAL USE ONLY

First, the economic mechanism of management of the national economy as a whole, of course, is not a separate element of the "sectorial and regional principles of management" and naturally does not constitute a part of their makeup. Second, the economic mechanism of management is a concept that belongs to a different level from planning. Under these conditions it would be possible to disclose the essential ingredients of the specific economic procedures (methods), which are used in the attainment of unity of sectorial and regional operation of the national economy. They include, for example, questions of regional differentiation of prices and transport rates contributing to the optimization of regional production ties, taking into consideration regional characteristics in fund formation, creation of economic incentives for attracting and securing workers in regions of intensive economic development and much else.

These questions, however, which bear a most direction relation to the methodology forms of sectorial and regional development of the national economy are bypassed in the book. Instead, there are described the substance of economic methods of management, special features of cost accounting under conditions of improved production management and the role of finances, credit and prices in economic operation. At the same time, the authors have excluded from the economic mechanism of operation all planning. They probably included it under "organizational-administrative" methods, reducing the essential ingredients of economic methods to such as "with the help of which control is achieved through the creation of a combination of conditions that are of interest to production and industrial associations, regional production complexes in raising the efficiency of management" (p 108). This position in itself is debatable, but it would be sensible to discuss it only in the case where it bears on the theme of the monograph.

The attention of readers is directed to an analysis in the book of the developmental laws of the structure of public production and economic organizational problems of formation of the production apparatus. Here are elucidated the substance of the system of organizational economic relations, the development of the structure of public production, tendencies of social combination and the structural elements of the unified national-economic complex. In the book there are examined in detail the laws of development of the sector and questions of formation of the modern system of management of production.

On the whole, the ideas discussed here undoubtedly interesting. But it seems to us that the authors have approached somewhat uncritically the determination of organizational forms of public production, using in this connection such terms as "production-operational complexes," "production associations of developed socialism," "production social-economic systems" and so forth. Today, the expression "regional-production combination (complex)" in our economic literature finds its lexical correspondence in 92 terms. Further "terminological work" could hardly contribute to a realistic elaboration of the scientific content of the problems.

A special place is occupied in the monograph by an investigation of the regional aspect of management of public production. The third chapter is specially devoted to it; separate questions are touched upon only in the first, second and seventh chapters. Since the authors of the chapters are different, this could not but help alter the wholeness of the general conception in the interpretation of a number of questions, not to speak of repetitions.

FOR OFFICIAL USE ONLY

The third chapter "Methodological Problems of Combining Sectorial and Regional Principles of Planning" is central to the first section of the book. It, in our view, penetratingly and not stereotypically examines such important and complex questions as specialization of regions, regional organization of production, regional structure of the economy. There are presented original, albeit not always indisputable definitions of a number of fundamental concepts of regional economics. The characterization of regional systems of different levels is interesting. It is emphasized that they in distinction to sectorial systems are, as a rule, multisectorial and multifunctional. The regional economic complex is defined as the aggregate of organizational forms of various types of operational activity in these systems with a leading nucleus in the form of regional production complexes (RPC).

The book proposes a system of evaluations used in scientific validation of the distribution of productive forces and a rational regional structure (pp 80-81). The importance of the new USSR Constitution as a legal basis for the improvement of regional planning is quite correctly emphasized. A unified complex of living conditions of people, the sectors putting out products for intraregional use and the regional infrastructure are considered as independent elements of the latter. It is proposed to boost the role of regional organs in comprehensive planning of the building industry, production of not particularly transportable products and, within the scale of large regional systems, products of intersectorial use (p 89).

On the whole, no objections are to be found in the views relating to the planning of regional production complexes as they essentially correspond to the methodological instructions relating to this question adopted by Gosplan USSR.

At the same time, the chapter, which as a whole is written on a rather high theoretical level, contains debatable positions. These include, for example, the definition of sectors of specialization. One can hardly agree with the position that "their makeup is formed not only from sectors of material production but also increasingly from the nonproduction sphere" (p 87) or with the assignment of communications, interregional transport and specialized construction organizations to sectors of specialization (p 88). The point of view that regional production complexes are to be considered as a universal form of regional organization of productive forces is most debatable. With such an approach, the entire country becomes an aggregate of different-rank regional production complexes (from economic zones to basic administrative rayons), while the actual term "regional production complexes" loses its essential meaning. This would make sense only in the case where "production nuclei" were to be formed in all regions with account being taking of the problems of optimization of regional production ties among enterprises included within regional production complexes, which, unfortunately, is not the case. Consequently, it would hardly be correct to consider any concentration of unrelated territories located on a given territory as regional production complexes.

The elucidation of regional problems in other chapters has been not only fragmentary but even inaccurate. The classification of forms of regional organization of productive forces presented on page 27 was not carefully thought out. On page 58, "requirements" are described that are to serve as guides "in the formation and development of POC (production operational complexes)," but at the same time there is a confusion of positions relating to the organization of production associations and enterprises with the principles of location of production. Such, for example, is

FOR OFFICIAL USE ONLY

the principle of maximal proximity of production to sources of raw materials, which is correct in regard to the location of individual enterprises but completely wrong in the formation of many sectorial associations.

In the second section of the monograph, different forms of combining sectorial and regional management are analyzed. Some of the formulations contained here we consider to be apt. This applies in particular to problems of improving the organization of production operational complexes and their management, validation of the content of questions of long-term development of associations (enterprises) recommended by the authors for coordination with territorial organs. Readers will find useful the data utilized in the book on the development of share participation of the leading enterprises of Nizhniy Tagil in the building of facilities of the nonproduction sphere, which in certain measure reflects the work experience of combining sectorial and regional interests in the plans of social-economic development of cities.

On the whole, the chapter on improvement of planning of comprehensive development of regions is also useful. But it is very brief, and the ideas stated in it (on planning of capital investment for regional production complexes, growth rate of A and B groups, the infrastructure) by no means take in the more acute, urgent questions relating to the improvement of regional planning. And here some inaccuracies are to be found, for example, on pages 202-203 reference is made to "balance methods" as if there were several of them. The assertion is wrong that the size of allocations for the development of municipal services depends on "the level of development of local industry" (p 207). Of course, it is impossible to agree with the fact that that development of the production sphere and others" (?) comes under specific tasks for regional planning (p 200).

This chapter contains proposals which it would have been advisable to treat in more detail, for example, on the reflection of outlines on the service sphere in the production cost of products of the region's enterprises, with subsequent deductions going into the local budget (pp 208-209).

In an analysis of questions of assessment of the efficiency of functioning of production operational complexes, the recommendation is made to utilize the indicator expression of relation of national income to the sum of wages, fixed capital and working capital.

We consider this recommendation to be fallacious. Let us look at the denominator of the formula. Evidently the idea of a direct summing up of the cost of fixed capital used over the course of many years together with yearly wage fund could in general hardly be debated now. The need of adducing nonsimultaneous expenditures does not give rise to doubt among representatives of the most varied directions studying these questions.

But it is not just a matter of lack of adduction of nonsimultaneous expenditures and mixing of used and consumed funds. The inclusion in the denominator in addition of "rotating capital" definitely confuses everything. First, it is not clear what they have in mind: just own and equivalent working capital or all material working capital? Or perhaps it is proposed to use some calculated annual volume of consumed working capital, or is it summed up together with the annual wage fund? But in any case, working capital includes a part of the wage fund which is considered as an

FOR OFFICIAL USE ONLY

element of "commodity-material assets" and of "goods of dispatched and provided services"--two of the most important constituent forms of working capital.

Probably, the appearance of the idea of calculating such a denominator is connected with the introduction at one time of the indicator of profitability for production funds into the system of economic measurements. Inasmuch as general expenditures for payment of living labor is included in only an insignificant volume in the sum of fixed and working capital, here the wage fund was added on while losing sight of the fact that, first, such an operation required the exclusion from working capital of the wage element and, second, the utilization not of the annual wage fund but its calculated size for the full production cycle, providing a qualitative uniformity of the actual category "sum of advanced expenditures."

As a result, instead of an indicator that makes clear economic sense, another is proposed, one that has been "adjusted," but, unfortunately, one that is deprived of any sense. It is no accident that the authors have not confirmed the "applicability" of this formula with real calculations on the national-economic level. Moreover, that which would have been obtained thereby would probably have forced them to revise their attitude to this idea.

It should be noted that more place should have been given to an analysis of specific experience in the work; this would have permitted the authors to prove more thoroughly their proposals.

As we can see from the analysis of the contents of the monograph, it contains many debatable positions; furthermore, we consider some of them to be fallacious. The book in this regard is most instructive--it lays bare the "weak elements" in the elucidation of one of the most important directions in improvement of the economic mechanism in the USSR. Nonetheless, the formulation in it of a number of new positions and proposed ways of solving some of them are of interest to specialists engaged in these problems.

COPYRIGHT: Izdatel'stvo "Pravda", "Voprosy ekonomiki", 1981

7697
CSO: 1820/224

END