

**REFORM OF THE ECONOMIC MECHANISM IN THE
SOVIET ECONOMY WITH SPECIAL REFERENCE TO
PRICES : THE PERIOD 1965 - 1990**

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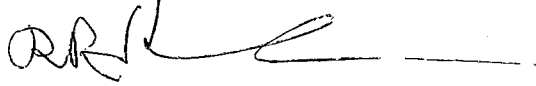
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DECLARATION

Certified that the dissertation entitled Reform of the Economic Mechanism In The Soviet Economy With Special Referenced to Prices : The Period 1965-1990 is submitted by Smt. PURNIMA M. GUPTA in partial fulfilment of six credits out of a total requirement of Twenty-Four credits for Degree of MASTER OF PHILOSOPHY of this University. This dissertation has not been submitted for any other degree of this University and is her own work.

We recommend that this dissertation be placed before the examiners for evaluation.


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INTRODUCTION - AIM OF THE STUDY

The differences between capitalist and socialist countries are all pervasive and obviously manifest themselves in the economic sphere also. While many common features bind together the socialist countries there are sufficient differences among them which make them distinct entities. Though they are distinct entities, it is possible to study the economic system prevailing in the socialist countries within a common conceptual framework. In fact the economic system of socialist countries can be studied within the framework of the 'Economic Mechanism'. This term is taken to mean the entire system of interrelations between economic units, Ministries, Planning Agencies, Banks etc., on the one hand and the interdependence between the national economic plan and the socialist market on the other hand. No one aspect of the economic mechanism can be studied in isolation from the entire conceptual framework of the Economic Mechanism. The intention in the present dissertation is to study the role of prices overtime within the conceptual framework of the Economic Mechanism. This study has been carried out in the backdrop of the several economic reforms conducted in the USSR from the period 1965 to the present day.

The process of planning is central to the functioning of the economic structure of a socialist economy. Hence the present dissertation begins by a brief appraisal of the functioning of a traditionally planned socialist economy viz. the USSR. Planning in the USSR was initiated with the onset of the I Five Year Plan of 1928-32. Till March 1985 (when Gorbachev took over), the same basic system of planning existed with two main functional sub-systems - one system for planning output and the other for distribution of production resources. The chapter on planning (Chapter I) would look into the pre-1985 planning system in the USSR. The system of planning is encompassed in the broader concept of the economic mechanism. Some theoretical constructs of the economic mechanism would be reviewed in the subsequent chapter, viz. Chapter II. This theoretical background would enable a better understanding of the economic reforms undertaken in the USSR, which are dealt with in the next chapter (Chapter III). Though Chapter III concentrates on the economic reforms undertaken in the Soviet economy in the pre-1985 period some broad observations relevant to economic reforms in the East European countries are

also made. The next chapter continues with the same theme of economic reforms, concentrating on the period 1986-2000 A.D. The earlier two chapters (viz., Chapters III and IV) deal with economic reforms in a general manner.

The role of price reforms has been selected for a more special treatment in the present dissertation in Chapter V. The theoretical background to the role of prices in a socialist economy has already been dealt with in the chapter on the economic mechanism (in Chapter II). In a resource constrained socialist economy quantity adjustments are important and how meaningful can price adjustments be is studied in the context of the socialist economy in this chapter (viz. Chapter V). The concluding chapter provides the broad observations on economic reforms that emerge from the present study.

CHAPTER I

PROBLEMS OF PLANNING IN A TRADITIONALLY FUNCTIONING SOCIALIST ECONOMY

As already mentioned in the Introduction, this chapter goes into the system of planning in the USSR before 1985 in a brief manner. The changes envisaged in the planning process by Gorbachev are dealt with as a part of the economic reforms of post-1985 period in chapter IV.

System of Planning

The USSR State Planning Committee (Gosplan), through the control figures drawn up by the party Politburo, formulates long-term, five year economic development plans. The targets set by these plans indicate the aggregate national economic goals and the specific production assignments for the principal economic sectors. These production targets are disaggregated and distributed through the various intermediate levels of economic hierarchy to the enterprises. Subsequently, the annual, quarterly and monthly plans are drawn up based on the five year plans.

Plan targets set by Gosplan are based on the plants and factories output from the previous plan period and on their estimates of their future

production capacity. As there exists the possibility of enterprise managers keeping their estimates low, Gosplan introduced an additional category of "Capital reserves" designed to balance out unusually low estimates and to increase production quotas. Planning based on a former achieved levels tended to block technological progress, as there did not exist sufficient incentives to undertake technological improvements. As an above average performance would guarantee higher plan targets in the next period, industrial managers were not interested in introducing innovations and overfulfilling the plan.

Under the material technical supply system (materialno - technicheskoye snabzheniye) the balancing and allocation of production resources takes place. Before the five year plans are formulated and approved and current production is decided upon industrial associations and enterprises are required to fill out indents for production inputs (zayavki) which are sent through intermediate management levels to the USSR State Committee for Material and Technical Supply (Gossnab). Then Gossnab determines the distribution of resources and issues allocation orders (raznaryadki)¹. To guard against future shortages, the enterprises make more demands for raw materials, unused machinery, equipment etc. then is necessary.

1. Valentin Litvin, On Perestroyka : Reforming Economic Management, "Problems of Communism, (July-August, 1987)" page 87.

Many suggestions for improvements in the system of centralised planning have been made. At the one end have been suggestions for decreasing the number of plan indicators Gosplan sends out to the ministries/enterprises and limiting planning to indicators of major output and investment goals, changing output targets from physical to value terms. However, the system of planning went through minor modifications upto March, 1985. The new dispensation, which took over in March, 1985 has outlined many changes in the system of planning. These are examined in Chapter III along with other economic reforms envisaged in the post-1985 period.

Chapter-II

Problems of The Economic Mechanism In A Socialist Economy.

As the main intention in the present dissertation is to study the reforms of the economic mechanism in USSR with a special reference to price reforms, it is essential to first understand this term 'economic mechanism' and its theoretical structure. The aim of the present Chapter is precisely this:

Economic mechanism includes within its fold the entire system of interrelations between economic units, Ministries, Planning organs, banks etc. on the one hand and the interdependence between the National Economic Plan and the socialist market on the other hand¹. These interrelationships are very broad and cover the manifold aspects pertaining to the economics of socialism. A broad idea on the system of planning in USSR has already been given in Chapter I. Within the socialist countries, the economics of shortages is an area which deserves special attention. In fact, in the present dissertation some aspects of the problem of shortages would be looked at. Hence, the present chapter would go mainly into the conceptual framework of the economic mechanism pertaining to the problem of shortages. That is, only those concepts within the

1. Otto Gado: Reform of the Economic Mechanism in Hungary Budapest, 1972, p. 293.

economic mechanism would be looked at which have a bearing on the problem of shortages. Pioneering work on this aspect has been done by Janos Kornai which is covered to an extent in his Economics of Shortages, (1980). The discussion that follows largely draws upon this work.

Production

It would be the endeavour of every firm to increase production. However,, it would face several constraints in this process. They may be grouped under the following three categories:-

(a) Resource constraints: They may be expressed as:

The i th real	\leq	Available quantity
input of all		of the i th real
producing		input.
activities		

That is, things like raw materials, semi-finished products, labour of specific kinds, equipments etc. which are instantaneously available to a particular firm put constraints on its production activity.

(b) Demand constraints: They may be

expressed as:

Sale of the jth product	\leq	Buyers' demand\$ for the jth product at given prices
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In the context of instantaneous adjustments prices are taken to be given. Once prices are given demands automatically get fixed. Depending upon the demand instructions received from the Directors of the firm or information of sales department, production managers may need to limit production.

(c) Budget constraints: They take the following general forms:

Expenditure of the firm	\leq	Money stock + Proceeds of firm
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In simple terms this would mean that the firm has to cover its expenditure from its own proceeds. That is, this expression reflects the principle of 'independent accounting of the firm.'

Effectivity of constraints.

It is always the comparatively narrow constraints that are effective. That is they are the ones which restrict efforts at increasing production as compared to the broad constraints which are not effective.

Whereas the resource constraints are of a physical nature, the demand and budget constraints express a behavioural attribute. That is, these constraints are people oriented. The hardness of these constraints varies from very hard to very soft constraints. Whether or not a hard behavioural constraint is effective depends upon whether other constraints are narrow or broad.

Socialist system versus capitalist system as regards constraints.

Whereas it is demand constraints which may be binding for the classical capitalist firm, it is the resource constraint which binds the traditional socialist firm. However, it is possible that for some socialist firms the demand constraints are binding and similarly for some capitalist firms the resource constraints may be binding.

Another difference between the classical capitalist firm and the traditional socialist firm is that the former faces a hard budget constraint whereas the latter's budget constraint is soft.

That is, even if a traditional socialist firm works with a loss it would not get bankrupt. It may either receive additional credit or may be granted a tax reduction, a subsidy or a raise in its selling price. The firm, as a buyer, tries to acquire as much input as possible so that production is not constrained by shortage of any input. The firm, as a seller, faces an almost insatiable demand. This is especially so for firms which produce for other firms (e.g. intermediate goods). As a result, the production plan of a traditional socialist firm is set at the level of resource constraint. That is, the planned level of production usually remains below what buyers would demand.

That it is typically the resource constraint which binds the traditional socialist firm and the demand constraint which binds the traditional capitalist firms is also reflected by the fact that the utilisation parameters of the former are determined by the supply side and of the latter by the demand side.

Resource constraints - Problem of shortage and slack
in production.

In a situation with several alternative technologies (h) the resource constraints may be expressed as:

$$\sum_{j=1}^h a_{ij} x_j(t) \leq r_i(t), \quad i=1, \dots, k$$

Where $r_i(t)$ is the quantity of the i^{th} resource available on the t^{th} day. The above expression indicates that the total requirement of the i^{th} input on the t^{th} day for all technologies has to be less than/equal to the quantity of i^{th} resource available on that day. It may be assumed that technology 1 corresponds to the plan objectives, other technologies representing deviations from the plans, and x_1 plan t gives the plan production level. In its efforts to make $x_1(t)$ as large as possible, the firm is limited by the resource constraints. It is the relatively scarce^c resource that limits production. Thus the conclusion that emerges is that in a resource constrained economy, the instantaneous adjustment to shortage implies that the volume of production has to adjust to the instantaneously scarce^c resource, i.e. its current bottleneck.

Unutilised resources, would form a 'slack'. Slack may be internal or external - an employee who is idle on account of shortage of some other resource would be slack of the internal kind and the unemployed queueing for job outside the capitalist firm would be external slack.

Shortage Leading To Forced Substitution.

In a situation of shortage of resources the firm may, at times, decide to deviate from the planned input combination. A direct consequence of this would be that the quality of output deteriorates. Forced substitution would be the second basic form of instantaneous adjustment to shortage in a resource constrained economy. In fact, forced substitution itself is one of the important indicators of shortage.

Forced Adjustment of Output to Input

Just as actual inputs may deviate from planned ones so also actual putput may deviate from planned output so as to adjust to shortage of some input. This is the third form of instantaneous adjustment to shortage.

Various forms of forced adjustments may appear together since one kind of shortage leads to many other kinds of shortages. Then the effects of these forced adjustments may have implications for overall production.

Measurement of shortage

Shortage or slack indicators may be taken to measure shortage and slack respectively. Every shortage indicator would reflect the shortage intensity and it would be a non-negative variable which takes the value zero if the system in question is totally free of shortages.

So also every slack indicator is a non-negative variable which takes the value zero if the resource under consideration is fully utilized.

Shortage is a process related to the control sphere with the intentions of the decision makers playing an important role in the control of the economy. Further shortage and slack can only be described by the totality of a large number of indicators. Both shortage and slack are vector categories and are not scalars. It needs to be remembered that statistics of shortage and slack are needed separately and they cannot be "netted out".

Kornai has put forward 6 hypothesis regarding shortages and slack, viz.,:

1. The important shortage and slack indicators of a system exhibit stability. The intertemporal averages of these indicators may be called the normal values of the indicators. That is, there would exist forces within the control mechanism which drive shor-

tages or slacks deviating from the norm back to their normal level.

2. There would be no perfect system in which normal shortage or normal slack take the value zero.

3. While these indicators are definitely positive it would be possible to say that normal shortage and normal slack for specific systems would take on concrete values.

4. The normal value of shortage indicators in the traditional socialist firm would be much higher than that of similar indicators of the classical capitalist firm.

5. The immediately mobilisable slack in traditional socialist firm is much lower than that in the capitalist firm.

6. Though hypothesis one above talks about normal shortage and normal slack the norms themselves may undergo changes with sufficient changes in the control mechanism and other institutional features pertaining to a particular system.

Short-term Adjustment of Production

So far the various concepts of the economic mechanism have been looked at within the framework of instantaneous adjustment of production model. The same concepts may be considered within the framework of short-term adjustment of production model. The smoother is the process of short-term adjustment, lesser ^{be} would the role of instantaneous forced adjustment.

In an instantaneous adjustment of production model, prices were taken as given. Hence, demands are also taken to be given. This would not be so in a short-term adjustment model. In a control mechanism there exists a signal system which supplies information as a feed-back. In a socialist system, a complex signal system operates supplying many different types of information. However, all the signals are "nonprice", i.e. quantity signals. That is prices do not change so as to reflect relative scarcities, shortages and slack. The extent of fulfilment of previous production plan is an important signal. If the plan has been repeatedly under-fulfilled it may mean that a less "taut" plan must be determined (the tauter the plan the higher is the probability that in the course of its implementation the firm will face a resource

constraint and forced substitution as well as forced deviations from the planned output composition would result). So also if the plan has been over-fulfilled, it may mean that a tauter plan needs to be framed.

Input Adjustments

There is a continuous adjustment of inputs used in accordance with the available resources in an instantaneous adjustment of production model. In a short-term adjustment model, the firm would modify its input combination permanently to the extent there exists permanent resource shortages, without any change in fixed capital stock. Long-term adjustment implies that even modifications in capital equipment and technology take place so as to adjust to permanent changes in availability of resources.

Output Adjustments

A feed-back control mechanism functions here similar to that for input adjustments. That is, if queue for product A is increasing as compared to the product B, output of A would need to be increased as compared to B. That is, the plans would need to take this into account. This feed-back control mechanism functions with a lag.

Though both the process of input and output adjustment function through feed-back mechanism, the former is a relatively flexible process. That is, the firm is more willing to adjust to input changes as compared to output changes where it dictates more to the buyer. From this, one can conclude that the input combination responds more to nonprice signals than does the output combination.

Consumption

As regards consumption (That is the buyer) concepts similar to the ones elaborated above hold good. Just as the producer hits a resource constraint, so also the buyer hits a "Supply constraint" (that is, when his demand cannot be fulfilled at a particular point of time). The buyer may also decide to resort to "forced substitution" in case the commodity he wants is not available. Alternatively, he may resort to waiting or search or queuing.

Hard Versus Soft Budget Constraint

In a socialist system the firm faces a soft budget constraint. This would mean that though the firm has to function within the limits of its budget, the firm does not really go bankrupt. In contrast, in a hard budget constraint which characterises a capitalist economy, the firm is tightly bound by the resource constraints and would face bankruptcy in the event of its exceeding the resources at its disposal. There are intermediate stages, i.e. various degrees of hardness and softness.

The following features are characteristic of hard budget constraints in its pure form:

- Exogenous prices
- Hard tax system
- Absence of free State grants
- Absence of credit
- Absence of external financial investment.

These conditions, in turn, have some implications. The important ones are as follows:

- Survival of the firm depends on its revenue from sales and cost of its input

In a situation where the latter is greater than the former the firm may be able to cover the gap with its own reserves for a short period of time. But in the long run it only means bankruptcy.

- Growth depends on the internal financial resources of the firm
- The firm has to adjust to prices given exogenously
- The firm faces uncertainty and cannot share its risks
- The firm's demand for inputs depends on the prices of the inputs, expected sales of its product/products and its price/prices.

The following features characterise a soft budget constraint:

- Prices are not exogenous to the firm i.e. the firm can direct increased cost of its inputs to the buyer
- Soft tax system i.e. the firm can influence the tax system and taxes are not strictly enforced

- Presence of free State grants
- Availability of credit by the State to the firm
- Availability of external financial investment



Some of the important implications of the above conditions are:

- The firm is not totally dependent on its own internal resources
- Similarly growth of the firm is not totally dependent on its own resources but funds are made available to the firm by the State
- The firm does not need to adjust to prices either because the price is exogenous to the firm or losses on account of prices are compensated by the State
- The firm does not depend upon prices for its existence
- Uncertainty faced by the firm is shared by the State
- As the firm does not face a resource constraint in a real sense its demand for inputs is unsaturated.

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Significance of hardness or softness of budget
constraint in the context of Economic Reforms
in the USSR.

It is quite apparent that the presence of a soft budget constraint would not really mean a prudent use of resources at the disposal of the firm. It needs to be seen to what extent the economic reforms undertaken tended to reduce the softness of the budget constraint. The chapters on economic reforms (chapters III, IV and V) would look into this.

Relevance of Prices in the context of
Economic Reforms

The question of prices was touched upon in the discussion on the nature of budget constraint. As the prices are exogenous to the firms in a socialist framework they perform a very different role from the role performed by them in a capitalist society. Prices in a capitalist society function as allocators of resources between different sectors of the economy i.e. prices by responding to excess demand and excess supply situations for different commodities provide signals for resource transfer. These functions of prices are absent in a socialist society. As already discussed above nonprice

signals serve as an important feed back mechanism in the process of adjusting production to the necessary level. If the process of economic reforms tends to reduce the softness of the budget constraint, it also has implications for the role of prices. An endeavour would be made to look at this aspect (i.e. whether or not prices have assumed a greater significance as a consequence of the economic reforms in the USSR) in the Chapter on Pricing, viz., Chapter V.

Chapter-III

The Economic Reforms During the Period 1965 To 1987

Before venturing into an account of economic reforms undertaken in the USSR from 1965, a brief review of the economic situation in the period prior to this is essential. There was a rapid growth of productive potential in the early 1950s. The general volume of production in all the socialist countries in 1953 significantly exceeded the post-war level. There was a major growth in the stock of productive capital and a change in its structure in favour of industry. Growth in investment meant a further increase in productive capacity. Nationalisation of the basic means of production and concentration of decisions on the level of accumulation/use of accumulated resources in the hands of the State was effective in accelerated industrialisation not only in the USSR but in peoples' democracies of East Europe too.¹

There was an imbalance in the development of different sectors as rapid industrialisation advanced. There was a differential between industry and agriculture. Within industry, output of means of production was growing faster than output of consumer goods.

1. W. Brus, Socialist Ownership and Political System, 1975
page 105.

The efficiency of use of productive potential was low. Material intensity increased while the quality of products was unsatisfactory. Further, rigid organisational and technological structure obstructed the adjustment of supply to suit consumer demand. There was fear to innovate in industry. It was in this period that centralisation reached its peak with obligatory output-levels, cost limits, physical control of sales and supply as sole instruments of planning and management.

The standard of living of the population at the close of the Stalin period was at a low level. Besides, income differences existed between country and town with lower levels in the countryside.

Average real wages for a large aggregate do not reflect adequately the standard of living of the population especially because of the limited relationship between the system of prices used in the indices of average real wages and the real market situation. With permanent market shortages, the opportunities to buy commodities at the prices fixed were limited. Sometimes prices would be reduced but there would be no corresponding commodities. There is another reason why these indices may not reflect the correct standard of living. Factors like elimination of open and concealed unemployment, growth of non-agricultural employment, social and

professional advancement would make general indices of consumption per inhabitant/real income per employee higher than the base level even at time which were unfavourable from the point of view of the standard of living?²

As regards the social distribution of income at the close of the Stalin period there was greater equality than under capitalism, both in comparisons over time and in comparisons at the same time. However, during the whole of the Stalin period, stratification of incomes according to political criteria was gathering strength. The functionaries of the party-state apparatus enjoyed a share in the social consumption fund more than in proportion to their right.

Soon after Stalins' death, there were drastic changes. Real wages in the USSR (outside agriculture) showed an unprecedented increase by 1954. Besides, price reductions were not accompanied by absence of goods as in Stalin period but by increased availability

2. However, indices of standard of living reflect improvements brought about by increased employment, increased professionalisation etc. Hence it does not matter if living conditions are unfavourable as long as the indices reflect a higher ^{standard} and it actually is higher than before.

of commodities. Income distribution improved and distribution of National Income between accumulation and consumption changed. In agriculture, there was a loosening of control.

The growing isolation of the Stalin period cut off the possibility of making use of the technical and organisational experience of more highly developed countries. Besides the low standard of living affected productivity adversely.

Thus the transformations initiated after Stalin's death were economically determined, something which can be formulated in terms of the dialectics of productive forces and relations of production.

What is particularly important for analysis of the transformations in the post-Stalin period is the fact that the predominant part of the party and state apparatus must have also been interested in changing the previous situation-just as the vast majority of society was.

Changes in Social & Economic Policy

During Stalin's period consumption was treated as a residual in the division of resources between competing aims. In fact, this tendency has continued upto today, to a lesser extent perhaps.

There was a change postulated and to some extent implemented in this approach after Stalin. An example is provided by Soviet grain policy - in Stalin's time USSR more than once experienced shortages of food but never imported grain - on the contrary (for political reasons) maintained net exports. Later on, imports took place when the level of consumption was threatened (for instance in 1963-64).

An endeavour was made to increase the profitability of agriculture and the incomes of the agricultural population by improving relative prices, rationalising liabilities (for example, the system of obligatory deliveries) and increasing the investment outlays. In all the East-bloc countries, clear gains were achieved in comparison with the first half of the 1950s.

Besides the changes in agricultural policy (and connected with them) a great reserve in the first phase of the post-Stalin period was provided by bringing into use productive capacity created predominantly with investment outlays undertaken in the proceeding years.

These factors helped in bringing about rapid growth in the incomes of the population of peoples' democracies in 1956-60.

There was a setback in growth of real wages in the five years after 1960. The political pressures which had made the raising of income of the population an 'imperative' weakened; stabilisation of the system followed in which certain forms underwent changes but not the essence of the exercise of power, as before free of social control and therefore able to impose its own preferences. At the same time the easily accessible reserves were exhausted. The plans for 1961-65 reflected in initiation of a new stage of major industrial investments but attempted to combine acceleration of the tempo of expansion with further growth of wages. In the course of implementation, the low level of efficiency of the economy-especially with respect to labour productivity, slow growth of which had to be compensated by an overplan increase in employment did not permit simultaneous achievement of two goals of acceleration of the tempo of expansion and further growth of wages. The setback followed first for wages and social investments. At the same time there was slowdown in overall rate of growth of National Income in 1961-65 for all peoples' democracies, except Rumania.

In the second half of the 1960's there was a differentiation in the course of development of various peoples' democracies as compared to the similar course of development in the two successive

phases of the post-Stalin period. Thus all these countries cannot be discussed together any more.

To sum up, positive changes in the material situation of the population in the USSR and the peoples' democracies did take place in the post-Stalin period and not at the price of increasing income differentials. Their quantitative scale, structure and sources were however of a kind which could not relieve the social tensions and create the pre-conditions for harmonious development especially because of the natural growth in the complexity of the problems as a higher economic and cultural level was achieved.

Modification of the Methods by the State

The post-Stalin period was characterised by the abandonment of mass terror. This had a positive effect for the economy since it brought about a feeling of relative personal safety without which it would have been hard to make use of the opportunities opened up by the economic changes introduced in the post-Stalin period.

In the ideological field also the post-Stalin period had a number of new features which affected economic processes. Though the control of the State on the intellectual life remained, the methods for implementing this were rationalised.

The post-Stalin period was also marked by the controlled weakening of isolation from the outside world. On the economic side, it meant greater foreign trade and greater access to the experience of technically advanced countries. Though this opening up to the outside was limited, the revived contacts tended to accelerate the modernisation of methods, and structures of production and new forms of satisfaction of consumer requirements. The demonstration effect turned into another strong factor arousing needs/aspirations because of which the ruling system had to face still higher demands not just in the economic but also in the political field.

Economic Reforms.

The course of reforms in the system of functioning of the economy may not be the best indication of changes taking place. As already mentioned above the first voices of criticism of the extreme centralisation of the system of functioning of the economy were raised soon after the death of Stalin. Initially it probably seemed to the CPSU leadership that it was sufficient to make themselves aware of the needs, to censure the shortages and issue appropriate orders combined with a certain reallocation of resources. This brought about mediocre results which made it necessary to think of revising or re-interpreting some of the canons of direction of the economy. One of the changes was brought

about by the Soviet decree broadening the powers of enterprise directors (1955).

During 1955-56, there were bold and well-developed conceptions of reform of the system of functioning of the economy in a number of socialist countries. The common postulates in the different conceptions of reform in the various countries were as follows:

- (a) Reducing the degree of centralisation of economic decisions and extending the area of independence of the lower units in the nationalised economy (enterprises or groups of them); reducing the role of vertical hierarchical links in favour of horizontal links (between bodies at the same level) etc.
- (b) Elimination or at least radical restructuring of the number of detailed indicators for evaluating the activity of enterprises and of the system of direct allocation of factors of ~~production~~ (in physical terms or in the form of narrow limits for each enterprise) in favour of strengthening the role of the so-called synthetic indicators (mainly profitability) and at least partially linking the inflow of means of production and labour with the financial results of enterprises.

- (c) Linking remuneration with the economic results of enterprises as one of the fundamental principles of the incentive system.

The creation of institutional conditions for employee participation in the management of enterprises was postulated.

From these points it emerges that whereas they envisaged a substantial transformation of the system of functioning of the economy, these postulates did not go beyond the framework of the centrally planned economy.

These postulates were substantial in the sense that to implement them would have meant replacement of the complex methods used to direct the economy with another set of methods. These new methods meant introducing instruments to operate with at the central level-eg., shifting the burden from direct orders to indirect regulation (through prices, tax policy, credit policy etc.). It would be correct to say that the proposed direction of changes meant the introduction of certain elements of the market mechanism into the planned economy.

Simultaneously, in the progress of reform actually worked out, the emphasis was on the intention of strengthening central planning by freeing it, from

the centralistic semblance of precision, efficiency and universality, semblances which were becoming more and more dangerous for the real capacity to plan the course of economic processes. These intentions were expressed in the differentiation of the extent of centralisation and decentralisation demanded for long-term (principally investment) decisions and short-term decisions (for the given production apparatus), in limitations of the area of autonomy of the lower links to within the framework created by central directive decisions, in definition of the objective function of enterprises from above according to a criterion linking their sectional interest with the interest of the national economy as a whole.

To sum up, the principal current in the reform movement of the end of the 50's was in favour of the centrally planned economy, seeing the liquidation of the centralistic system and the introduction of its own kind of market mechanism as an instrument for improving socialist planning and creating the conditions for optimising behaviour on the scale of the whole economy. The dominant formulation was of a model of planned economy making use of the market mechanism.

It should be noted that reform in the sense given above was a failure everywhere, in all socialist countries. In the USSR the change was reversed in

1956/57.

Among the reasons for failure was the part played by doubts or negative evaluations of reform from a pragmatic point of view-some economic officials felt that reform would not increase the efficiency of the economy but would in fact decrease it. There were of course other complex factors. According to W. Brus the most important causes were political fear that to enter on the road of real and complex reform of the system of functioning of the economy would mean undermining the political system, either directly or more indirectly by initiating a process of gradual erosion of the existing monopoly of power. The fears of indirect effects were connected with the question of the long term influence of economic reform on political relations. Genuine decentralisation did weaken dependence on the central apparatus. The transfer of a certain category of economic decisions to lower levels and linking of part of remuneration and possibilities of expansion to the financial results of the enterprise increases the responsibility of directors and hence makes it necessary to increase their prerogatives too in certain fields previously reserved for the political factor (for example, in personnel policy). This could be an important factor in the emancipation of a large and significant social group.

The retardation of economic reforms in all the socialist countries (which had undertaken them

in the middle of the 1950s) was accompanied by attempts at theoretical justification. The arguments against decentralisation and the introduction of elements of the market mechanism into the system of functioning of the economy can be grouped into following categories:

1. Purely dogmatic assertions of the fundamental contradictions between central planning and an area of use of commodity-money forms which goes beyond the centralistic model.
2. Criticism of decentralisation from the point of view of the objective tendencies of economic development which was accompanied by the increasing scale of production and investment and the growing role of scientific and technical preparation etc. Against this background the postulates of decentralisation and extension of enterprise autonomy were presented as a return to a past which had been rejected even by modern capitalism.
3. Rationalisation of the centralistic model on the basis of the achievements of modern information theory and techniques; computerisation, which would vastly accelerate the flow of information to a centre with enormous processing capacity, would eliminate the deficiencies in the existing methods of directive planning and made resort to any elements of decentralisation and market mechanism superfluous.

The most important group of arguments was the third one. However, closer analysis of the meaning of computerisation of management shows that modern methods and techniques of steering not only do not foredoom evolution in the direction of centralisation but on the contrary create the preconditions for including various levels in the process of decision-making in order to optimise the result for 'the system' (the economy) as a whole. One of the Soviet theoreticians of optimal planning, A.A. Volkensky treats the functioning of the economy as a 'man-machine system' where the elements of informal decisions and the system of incentives must be linked with the formalised decision making processes in a single whole. Thus the problem of choice of system goes very deep and the opportunities provided by modern techniques must be subordinated to the nature of the task.

Thus, other two arguments against decentralisation were also weak. Hence the failure of the first wave of reform was not decided by any issues of real substance.

The influence of the political factor was evident. This is also borne out by the interesting correlation between the retardation and reversal of reform and certain features of the economic

situation . An incentive to taking initiatives from above for improving the system of functioning of the economy was the urgent political need to get results in the sphere of consumption. During 1955-58 these results appeared even though the system of functioning of the economy had not undergone any essential change. An important reason for these was the reserve stemming from past mistakes which could not last long. In political thinking, this temporary progress was magnified and treated as a weighty argument against embarking on an uncertain wave of reform. When after a few years of relaxation of the burden of accumulation there followed, in 1958-59, renewed tightening and the new cycle of expansion of investment, this too was interpreted not so much against decentralisation as simply in favour of recentralisation of these decisions which had previously been transferred to lower levels; compulsory indicators and allocation of means of production were also restored to their former extent.

The fate of the 'first wave' of economic reforms confirms the interrelationship between the economic and political aspects.

The second wave of economic reforms refers to the renewed activation of reformist tendencies in the mid-1960s. Though this did not have uniform practical effects in the different countries, but the coincidence in time and in conception too

(to an extent) was sufficiently large to enable one to find a number of common causes.

The basic causes stemmed from the economic sphere. The 'reserve of past mistakes' was quickly exhausted. The sources of irrationality connected with the essentially undisturbed system still operated, both in direct form (inadequate rate of decrease or even increase in capital intensity, material intensity and labour intensity of manufactures) and indirect form (misdirected production, not suited to the needs of customers and therefore causing excessive growth of stocks). In the new conditions of the higher general level of the economy and the growing role of international division of labour, the inefficiency of the system placed greater and greater burden on the economy, especially on the final reflection of its results in the level and growth of incomes of the population. This area could not play the role of universal shock-absorber for economic disturbances and if the authorities forgot this and went too far the threat of a social explosion appeared. Internal politico-economic contradictions were supplemented by external ones—the necessity of keeping up with the scientific, technical and organisational revolution in Western countries.

In the USSR, Poland and Bulgaria, the objective situation allowed reform to be postponed

to a greater extent since there still existed extensive factors of growth, in particular, reserves of labour. Besides, in USSR there was a growth of production and export capacity associated with the development of its raw material base. Although, the 1960s brought a slackening of the rate of growth in comparison with the previous decade, the slow growth of real wages was partially contracted by the growth of average real incomes per inhabitant.

Nevertheless, in these countries, the economic failure of the 1960s showed that the centralistic system of functioning of the economy was more and more contrary to the requirements of the development of productive forces. An important role in this was played by the fact that the reform had been delayed.

A major role in the renewed growth of interest in economic reforms was played by external economic factors. The more developed countries among the socialist countries were feeling the need for change more acutely and in the 'second wave' set about ^{to do so} more energetically. In this situation the weaker countries had no choice since to preserve the old system ^{which} threatened to open the gap in economic levels wider. What was regarded as especially dangerous here was the achievement by others of

predominance in exports - not only to capitalist hard-currency markets but within Comecon too, since the peoples' democracies are in competition to ensure themselves the highest possible deliveries of raw materials from the USSR. The centralistic system of functioning of the economy showed less and less ability to meet the growing import needs with industrial exports, and this restricted the possibilities of technical reconstruction of a number of branches, of increasing labour productivity and of modernisation of the structure of production.

Thus, in the mid-1960s, the pressure of economic needs once again raised the problem of reform of the system of functioning of the economy in the socialist countries. The political factors which operated against reforms appeared as before.

In Hungary, the complex reform prepared over a period of few years was put into operation on 1st January, 1968. According to W. Brus, the system as it finally developed was the one which most fully implemented the concept of 'the model of a planned economy with a regulated market mechanism.'

In other countries, no deeper changes in the system of functioning of the economy had followed upto the end of the decade. In the USSR an economic

reform was proclaimed in 1965, but neither its basic assumptions nor a time scale for its introduction were spelt out in detail. The general direction towards increasing the role of the market mechanism (economic calculation in Soviet terminology) by reducing the number of directive indicators and increasing the independence of enterprises was implemented gradually in selected branches and regions but not reaching a degree corresponding to a new, internally logical system.³ Also characteristic of Soviet relations was the extraordinary sensitivity to fluctuations in the political climate surrounding reform (e.g. the omission of the description 'economic reform' at the XXIV Congress of the CPSu).

In the USSR, in 1964 and 1965, new methods of planning and economic stimulation were introduced in a number of enterprises and their work was evaluated on the basis of the fulfillment of the plan for goods sold and profits obtained. A new system of bonus payments to managers, engineers, technicians and office workers was introduced in a number of industrial branches as an incentive. The new system of planning and economic stimulation, by increasing the workers' interest in the results of their work, led to a level of profits which far exceeded the planned level for a few organisations.

As regards prices, it was realised that if prices are not substantiated, then it may lead to subjectivity in decision making. It was expected that normally functioning enterprises must get their profits through produce sold at wholesale prices. Prices should also be an important factor in improving the quality of goods.

Keeping these considerations in mind, it was decided to set up a State Committee for Prices attached to the USSR State Planning Committee. By 1st January, 1966, this Committee was to present proposals relating to the main trends in the functioning of wholesale prices for industrial goods, with an attempt to bring prices as close as possible to expenditures of socially necessary labour. Besides, it was also acknowledged at that time that retail prices can be reconsidered only with the aim of reducing them. Considering the time required for the preparation of new price lists, it was decided to introduce the prices in 1967-68. Besides, the State Planning Committee, the Ministry of Finance and the Committee for Prices would need to introduce modifications in prices to eliminate unjustified differences in profits.

To sum up - despite the fact that in the second half of the 1960s the economic need to abandon the centralistic system of functioning of the economy was almost universally recognised and

included in official program (E. Germany and Hungery documents) reform was introduced in only two cases and in a consistent manner in only one viz., Hungary. This means that in general, no basic changes in the system of functioning ensued in the post-Stalin period which would have contributed to the democratisation of the system.

In sum, an analysis of the processes taking place in the USSR and the peoples' democracies in the post-Stalin period leads us to conclude that on all planes considered - the socio-economic, the methods by which power is exercised, the system of functioning of the economy-changes were carried out, which it would be a mistake to underestimate but which did not transform public ownership into social ownership. Though the extreme forms of totalitarian dictatorship receded and the flexibility of the system, its capacity to adapt to changed conditions increased but the fundamental features of the production relations remained unchanged, especially the political system-the real structure of power. Neither the whole of society nor the working class, whose dictatorship is supposed to be the essence of the socialist state, held power in the post-Stalin period, and thus neither did they become the owners of the nationalised means of production.

Main Reforms of 1973 and 1979⁴

The 1973 reforms was primarily in the form of major organisational changes. At this time they began the movement to form associations. The advantage of associations was that they allowed the planners to control the economy by dealing with a number of economic units, thereby making this control more effective. Besides, the development of associations may have achieved more tangible benefits in the field of transport costs and research and development. If the enterprises involved with each other on account of transport of materials could be combined into an association, then their transport costs could be internalised and possibly more rational transport arrangements could be worked out. For instance, if the enterprises within an association specialise in the production of a small range of products.

Two types of associations were formed - the production association and the industrial association. The latter operated on an independent, accounting basis (i.e. covering their costs from their own revenues. In effect, this reform meant concentration of power with an association (the middle level of the economic reform) and lesser autonomy to the Ministries as also the absence of separate existence of the enterprises.

4. Martin Cave and Paul Hare, Alternative Approaches to Economic Planning, 1981, Page 44

A decree of the central committee of Communist Party and the Soviet Council of Ministers which was adopted in July, 1979 extended the management changes of 1973. One of the changes related to establishment of a system of ~~tar~~ targets/norms for each enterprise/organisation for a five year period. The annual plan was to be constructed within the framework of the five year plan after taking into account a counter plansubmitted by production units.

Besides there was a provision for a new index of net (normed) output for production associations in place of gross value of sales (though this was to be retained for assessing performance of an enterprise in the delivery plan). Further Khozraschet (independent accounting) was extended to the Ministries and they were expected to make specified payments to the State budget.

The above reforms proved to be only piece meal measures as is also stated by M. Gorbachev in one of his latest books viz. "Perestroika" ⁵ - "In carrying out a radical economic reform, it was important to preclude the repetition of the mistakes which in the 1950s, 1960s and 1970s doomed to failure our attempts to change the system of economic management. At the same time, those attempts proved to be incomplete and inconsistent for they emphasised certain issues, while ignoring others. Speaking frankly, the solutions that were offered then were not radical, they were half way measures, which not infrequently missed the essence of the matter."

⁵. Mikhail Gorbachev, Perestroika, 1987, Page 84.

Economic Reforms In the Post - 1985 Period

First the reforms in the sphere of planning are dealt with and subsequently other economic reforms would be reviewed over the post - 1985 period.

Post - 1985 Changes in Planning System

While there has been talk of introducing changes in the system of planning for a long time it is only after 1985 that ^{some} real attempt in this direction was made. The June 1987 plenary session of the Central Committee of the Communist Party of USSR spelt out the reforms in the system of planning.⁶ The Politburo control figures will continue to be used to develop the five year plan. The difference would be in that both the control figures and the plans will be indicative rather than directive. On the basis of the control figures, a perspective plan of fifteen years would be drawn up. The five year plans would demarcate the plan aims. Enterprises would have to draw up plans based on State orders. An enterprises production potential would not be evaluated on the basis of previously achieved levels but on the basis of norms (the productive potential of its resources multiplied by a 'normative output').

6. Valentin Litvin, Perestroyka : Reforming Economic Management, Problems of Commission, July - August, 1987, Page 88.

There is also a proposal to reform the system of resource allocation. Enterprises would buy necessary resources from the wholesale stores run by Gosstab in contrast to the earlier system of input requests and allocation orders.

Another reform relates to the amalgamation of Union and Republic Ministries. Work on this has already taken place to an extent.

The draft plan and budget being drawn up for the year 1988 envisages a reduction in the number of production indices by more than two third as compared to 1987⁷. That is some amount of flexibility is being introduced in the Central plan.

The 1988 plan also includes the products to be manufactured by the industrial plants and which are paid for by the State at fixed prices. The State order will account for 50 to 70 per cent of the total output in the manufacturing industry. The remaining products can be sold by the enterprises and amalgamations in agreement with the clients. Such a provision which gives so much initiative is being introduced for the first time. The draft budget for 1988 also envisages new financial relations between the State and the enterprises.

7. Radical change in Planning and Economic Management
Sept 28, 1987, Page 6. TASS,

reproduced in News and Views from the Soviet Union
published by the USSR Embassy in New Delhi.

For instance, the amounts deducted from the profits of enterprises and factories for contributions to the budget have been considerably reduced. The payments to be made by the machine building plant to the budget would be only 44 per cent of their expected profit, the rest remaining with the plants. From this it seems that 1988 may herald radical change in the sphere of planning and economic management.

Planning by the Enterprise⁸

An enterprise activity is planned in accordance with the principle of democratic centralism in which the work collectives also play an important role. On the basis of the basic indicators contained in the guidelines for the five year plan period, the enterprise draws up plan for its own development. The enterprise builds up its five year plan independently on the basis of the control figures, long-term economic norms, State orders, orders of output by consumers and availability of resources with it. So that the indicators implied by the control figures are fulfilled, the enterprise draws up its production plans. It is mandatory for the enterprise to fulfil orders placed with it by the State Government.

8. USSR Law On the State Enterprise (Association), Translation Draft Law published in 'Pravda', 8th Feb., 87 which appeared in Survey of World Broadcasts (SWB), 13th Feb., 87.
For text of Approved Law see Pravda 3 July, 1987.

On the basis of the five year plans the annual plans are drawn up. The enterprise also adopts "Counter Plan" whose indicators are higher than those in the five year plan. The indicators, economic norms and limits set for the enterprise by the Council of the Ministers. The enterprise is expected to follow the plan and aim for its unconditional fulfilment.

Enterprises under Union jurisdiction have to coordinate five year and annual plans with the corresponding union republic or autonomous republic with regard to the developments relating to social aspects, services rendered to the population; production of consumer goods, construction, size of labour force and its use, raw materials and secondary resources, conservation of environment etc.

An enterprise in the Soviet Union functions within the restrictive framework of centralised management. The necessity to minimise cost and raise productivity is almost absent in such an enterprise. The Gosbank (State Bank of USSR), through its numerous branches verifies enterprise performance. A situation of losses did not mean much as these are subsidised by Gosplan. Thus the system of financing has not been based on economic rationality. The role of banking is expected to grow now with the introduction of the principle of profit and cost accounting (Khozraschet) and

with the emphasis on profit so that the enterprise depends on its own resources.

Some new elements are also present with respect to sharing of profits. Either the profits remaining after the enterprises cover the various costs are divided between the workers and managers (as premium and bonus) or the plants and factories first pay for the various costs elements and then distribute the remaining amount as remuneration for workers and managers. The second alternative makes all earnings dependent upon labour of workers.

The USSR Law on State enterprises brought forth in June, 1987 and which went into effect from 1st January 1988 states: "the enterprise has the right to determine the form of and system for compensating workers' labour in order to avoid equalisation. It determines the use of funds as material incentives."

It appears that material incentives would become the important motivation for the economic development of the USSR. As stressed at the June 1987 plenary session "it is particularly important that the actual pay of every worker be closely linked to his personal contribution to the end result, and that no limit be set on it. There is only one criterion of justice: whether or not is is earned." Hence one can say that labour is being treated differently from other material inputs. It is no longer expected that an individual worker

subordinates his own interest for the interest of the collective as proposed by the Marxist ideology.

There have already been instances of insolvent enterprises closing down. In particular, in March, 1987, the unprofitably run Leningrad construction enterprise was closed. A few months later a large research centre for construction economics was shut down. One long term possibility of closing down such insolvent enterprises is that it may result in unemployment.

It is also expected that the control of the CPSU on the economic activity of enterprises may be reduced with the introduction of the new Law on State Enterprises. That is, the Directors of plants and factories, head of plant and factories, divisions and foremen would no longer be appointed by party organisations but would be elected officials not subject to dismissal by the party organs. As a result, a large number of party officials may assume management positions, thereby reducing the power of party officials in the control of the economy. The increased control from the bottom may even lead to the development of self-management at the top.

From the above exposition it would appear that the Gorbachev era plans to bring about revolutionary changes in the sphere of planning, in particular relating to the management of enterprises, However ,

the translation of these new ideas contained in the reforms into regulations and statutes would take a long time and within this period itself further changes may take place rendering some of these new ideas obsolete.

Though the production targets would be based on some norms, these norms are to be decided by the planners and are not being left to the individual enterprises to define. The latter course could have been accompanied by some kind of check by Gosplan. As far as the question of prices is concerned, the prices would still not be objectively determined. That is, the prices would not be fixed so as to reflect the costs of various inputs but are being based on extra economic considerations.

The success of the reforms also depends upon the workers' attitude to the reforms. The above account reveals, though in a general manner, the changes envisaged in the planning system after the 1985 reforms. Economic reforms in spheres other than planning are looked into in the section that follows.

Other Economic Reforms in the Post-1985 Period

The USSR Law On the State Enterprises (Association), adopted on June, 30, 1987 by the USSR Supreme Soviet⁹, is one of the key documents which refers to the latest series of economic reforms envisaged. Amongst the important changes emphasised by this Law are:

- Increased importance to the centralised principle in the solution of economic problems while simultaneously expanding the democratic basis and developing self-management of enterprises.
- Accordingly, increased role of the Work Collective in the management of enterprises. In particular, each Work Collective would ensure complete and prompt satisfaction of consumer demands which an enterprise, in any case, is expected to fulfill.
- The Law states that the State enterprise, alongwith the cooperative enterprise, is the main component part of the single National economic complex of the USSR. It plays an important part in achieving

9. Ibid.

the main goal of social production under socialism so as to fully meet the growing material and agricultural demands of the people. The State Plan which is the chief instrument for the implementation of the Economic Policy of the CPSU and the Soviet State decides about the work of the enterprises. The enterprise is expected to function on the basis of principles of full cost accounting and self-financing. The enterprise draws up and adopts its plan and in all its matters, it is its own master. The labour collective is in fact the master of the enterprise and independently resolves all the problems connected with its production and social development. In accordance with the Law, the enterprise deducts part of the money received from the sale of its products/services and pays the State for the use of fixed assets and also pays off its credit. The remaining money earned by the enterprise, which constitutes its cost accounting profit, is spent by it as while more freedom has been given to the enterprise it is also ensured that the State does not take it upon itself to meet obligations of

separate enterprises. On the basis of their own profits the enterprises create wage funds, funds for social development, for the development of production, science and technology. However the Law on State Enterprises does not say anything about the distribution of these funds.

- With respect to production and research-and-production-amalgamations, the Law states that the latter are meant for the development and production of efficient machinery, equipment and instruments, new technological processes etc.
- All the senior executives managing the enterprise are to be elected and the management of the enterprises would be a combination of centralised management and self-management of the labour collective.
- The labour collective exercises its rights and authority by means of general meetings.
- As regards the foreign economic activities of enterprises and amalgamations, the Law states that these would be based on currency self-repayment and self-financing. A lot of importance would be given to experts by an enterprise. The Law also states forms of relations between enterprises and their partners in CMEA member countries.

- The Law does encourage economic competition between enterprises. The State would plan for the best quality in production at the lowest cost.

- As regards prices the Law states that the enterprise should sell its output at prices set on a centralised basis or determined by agreement with the consumer or independently. The enterprise would need to prevent inflation in prices. In a situation of price inflation and earning of unjustified profits, the enterprise would have to pay into the budget an additional fine amounting to the illegally earned profit. When a producer increases the prices of output, a consumer has the right to cancel the contract.

Thus, it would ^{be} seen, even from the brief exposition above, that the Law on State Enterprises goes in depth into various economic issues and suggests modifications in many spheres of economic activity. While some changes are of a superfluous nature, others may herald more concrete modifications in the system of functioning of the economy. The increased freedom being granted to the enterprises belongs to the latter category.

Chapter- IV

Economic Reforms Envisaged Over the Period 1986 to 2000 A.D.

The Basic Guidelines of economic and social development of the USSR for 1986-90 and the period upto 2000¹ indicate the specific plan targets in conformity with the CPSU's goals. Broadly speaking, the guidelines emphasis that over this period the economy would endeavour to perfect socialism and build **communism**. The supreme goal of the party's economic strategy would continue to be to improve substantially the peoples material and cultural living standards. To achieve this goal,, there has to be an acceleration in the socio-economic development and intensification in production on the basis of scientific and technical progress. The guidelines envisage an increase in real per capita income to the extent of 60 to 80 per cent.

It would be worthwhile to go over the more important assertions of the guidelines:

- Ensure full and rational employment of the population

1. Basic Guidelines of Economic and Social Development USSR For 1986-90 And The Period upto 2000, as approved by 27th CPSU Congress, Summary of World Broadcasts, second series SU/8212, 20 March, 1986.

- While the consumption standards are to be raised, it is desired that the consumers' needs conform with the socialist way of life.
- Social consumption funds would need to increase substantially.
- A new demographic policy to take account of the country's different regions would be followed.
- Production would be carried out in a more intensive manner so as to increase the pace of the economic growth.
- Social labour productivity is expected to rise by 130 to 150 per cent.
- Savings of resources are to be stepped up to enable further intensification in production.
- The efficiency of capital investments is to be stepped up and they are to contribute significantly towards the renewal of fixed production asset, especially in priority areas.
- Scientific and technical progress would be accelerated significantly and their

results would be utilised through the length and breadth of the economy. It is hoped that quality of production and services would rise to the level of best world standards.

- The Unified National Economic Complex is expected to grow in a balanced manner.
- Heavy industry would be consolidated considering its importance for the growth of the industrial economy.
- The USSR Energy Programme would be implemented with a view to improving the country's energy balance.
- The USSR Food Programme would aim for fuller satisfaction of country's requirements for agricultural produce.
- The comprehensive programme for the development of consumers goods production and the services sphere would be implemented. Under this programme the output of non-food goods is expected to increase by about 80 to 90 per cent.

- There has to be accelerated growth in various sectors of the production infrastructure like transport, electricity, communications etc.
- As regards the growth of Union Republics, the guidelines emphasize that all of them would witness economic growth and they should all grow harmoniously.
- It is envisaged that fuller use would be made of the gains from international division of labour, especially with the countries in the socialist community. Besides, economic and other kinds of cooperation with developing countries is to be expanded.
- The potential of the socialist planning system would be reaped to its maximum level. The guidelines also speak of the development of the fundamental Leninist principles of socialist management and especially of democratic centralism.
- There would be a comprehensive perfection of management practices. Economic methods of management, economic autonomy and economic responsibility of associations and enterprises are to grow further. In particular, it is expected that the effect of the financial-credit levers and the price system on

production efficiency would be stepped up.

- While the role of soviets of peoples' deputies in the socio-economic development is to be stepped up, the working peoples' role in management is also to be expanded further.

Role of the 12th Five Year Plan in Implementing the Basic Guidelines upto 2000.

The 12th Five-Year Plan would aim for an increase in the rate and efficiency of the economy's development on the basis of further scientific and technical progress, more intensive use of the production potential, perfection in the management practices and the economic mechanism. So as to achieve these broad goals the 12th plan would need to do the following:

- Through extensive use of results of science and technology, it is hoped that a breakthrough in production intensification would be achieved. In this sphere, the role played by production development funds would be rationalised so that these funds are primarily used for improving the technical standards of associations and enterprises.

- Social labour productivity as a whole is expected to grow by 20 to 23 percent.
- Greater stress would be laid on economising resources.
- A package of measures would be implemented to create more favourable conditions for highly efficient labour.

Stress on Scientific and Technical Progress.

There is a marked emphasis in the guidelines on the significance of scientific and technical progress for achieving the economic goals enumerated above. In fact, two-thirds of the increase in social labour productivity during the period 1986-90 is to be achieved through scientific and technical achievements. In this respect the guidelines state the following:

- Use of automated system in planning and management of equipments and technological processes.
- The development of new generations of equipment.
- The economic mechanism in the scientific sphere is to be improved through linking

up material incentives for scientific collectives to their contribution in the solution of scientific and technical problems.

The above account briefly enumerates the main goals for the economic and social development of the USSR upto 2000 AD. Quite clearly the magnitude of work involved for achieving these goals is imposing and every section of society would need to put in a great deal of effort so as to make the various expectations a reality. The 27th CPSU Congress stated that the targets being set for the 12th plan and the period to 2000 would be achieved. While the guidelines do go into the question of methods to be adopted for achieving the various goals in the economic and social sphere, these methods do not touch upon any new system of economic reforms. That is, while the guidelines do mention that the price system should play an important role in achieving more efficient production, it does not translate this into very specific terms of a price policy/system. It may be assumed that the economic reforms envisaged by the post-1985 regime would form the backbone in the overall efforts for achieving the goals outlined in the Basic Guidelines.

Though there is no mention of an overall price policy, in the context of measures for raising

the peoples standard of living, the guidelines state that the retail price policy would be such that it increases the populations' real incomes i.e. the system of retail prices and tariffs would reflect the socially essential expenditure and the quality of the corresponding commodities. Prices of some commodities may be lowered in a situation of increased efficiency in their production. At the same time the guidelines emphasise that there would be a regular monitoring of prices to ensure that price discipline is maintained.

Chapter - V

Pricing System In The USSR

The existing pricing system emerged under conditions of extensive development of the economy. Overtime the economy has witnessed a gradual shift from extensive to intensive development. In a situation of this shift, the role of prices has not undergone any change. In practice, prices have been performing basically accounting functions. Wholesale prices in USSR are thought of as accounting tools and not as signals that tell factory managers what to produce and where to buy their materials. These decisions are taken by planners at Gosplan (which dictates output) and other agencies. One of these is the State Committee for Material Technical Supplies (Gossnab), whose bureaucrats arrange for the transfer of goods from Factory A to Factory B at prices fixed by the Price Committee. Since fixing prices of everything from dashboards to doorknobs is a mammoth job, prices remain unchanged for years. And the cost-plus-a-bit-of-profit formula used to set them takes no account of a product's scarcity, or how much of it is really demanded.

In the early 60s there existed a school of Soviet economists belonging to the mathematical

economic group (viz., Nemchinov, Kantorovich, Novozhilov) who felt that the prices should reflect the scarcity of inputs. In fact they tried to work out shadow prices for inputs, marginal costs etc. But the orthodox political economists did not take this into account and they preferred a system of administered prices based on average cost principle. This resulted in loss making planned units and enterprises in the country which were financed from the State Budget.

Another irrationality has emerged on account of this in the sense that there is no proper linkage between wholesale prices, State purchase prices, State retail prices etc. which are governed by administrative bureaucratic approach. That is, market forces are not playing the requisite role in determining the inter linkage between the various kinds of prices (wholesale, retail etc.,). As observed by Mr. Pavlov* "We have increasingly disrupted the inter-connected nature of pricing as a unified interlinked system." This system of prices obviously has implications for decisions on interest, capacity expansion etc. That is, on the basis of these administered prices the planners would have difficulty in making rational economic decisions on various macro-economic issues.

According to Marxist logic, all products derive their value (in effect their prices) from the labour inherent in them. It is now being felt

* Valentin Pavlov : Pricing Reforms, TASS, Nov.1987, (News & Views from the Soviet Union): Pavlov is the Chairman of USSR State Committee for prices.

that prices for many types of products do not reflect socially necessary labour on their production and sale, do not reflect the forces of supply and demand for individual products, thus not exerting enough influence on the balance between supply and demand; prices have a weak influence on improving the quality of putput and promoting scientific and technological progress.

Besides, serious disproportions were allowed in the level of wholesale, purchase and retail prices which led to contradictions between interests of the State and interests of associations and enterprises.

It may be worthwhile to give some illustrations of the irrationalities in pricing system. As explained by Mr. V.S. Pavlov, Chairman of the USSR State Committee for Prices, the price formation mechanism which evolved in the 1950s did not take into account the scarcity aspect of inputs of raw-materials, labour etc. In the period of extersive growth in the 1950s there may have been abundant resources of all kinds which probably justified this approach. Overtime, various resources like raw materials, labour and so on have become scarce. Even then the old practice of pricing raw materials cheaply has not changed. Mr. Pavlov refers to this cheapness as illusory and hence irrational.

The statement below further illustrates the nature of irrationality in prices.

<u>Commodity</u>	<u>Cost Price</u>	<u>State selling price</u>
1. Coal (Rbl per tonne)	18.40	12.00
2. Niva grain combine (Rbl per unit) manufactured by Rostselmash and sold to collective farms and state farms.	9500	6100
3. Phosphate mineral fertilizer (Rbl per tonne)	260	119
4. Potash fertilizer (Rbl per tonne)	61	19
5. Grain in Rbl per tonne (costs include allowances, discounts) purchased by State from collective farms and State farms and sold to bread making factories.	150	111
6. Transport Bus (Rbl/per unit) (bought by State and given to transport enterprises)	48,000	37,000
7. Railway Carriages (Rbl/per unit)	28,500	25,000
8. Trolley buses (Rbl/per unit)	29,000	24,000

Source: R.G. Gidadhubli, Soviet Debate on irrationality of Pricing System, Economic and Political Weekly, 7th November, 1987.

Hence it is seen that the cost of production of the several items listed above is higher than the price at which it is sold to the intermediate users. Another illustration of the irrationality in price levels is provided by the prices for agricultural machinery and fertilizers. The wholesale industrial prices of these are higher than the prices at which they are sold to agricultural farms, as shown below. The difference is more than three times for the combine harvester.

<u>Commodity</u>	<u>Wholesale Industrial Prices</u>	<u>Prices Charged to Farms</u>
1. K. 700 A Tractor	R.18,725	R.11,975
2. Don 1500 Combine harvester	R.38,000	R.12,500
3. Double granulated Superphosphate (per tonne)	R.162	R.68.50

Source: Ibid

The difference between the cost of production and the prices on various commodities are financed by subsidies from the State budget. In 1960, the State subsidy for agriculture was reported to be

35 billion roubles which increased to Rbl. 50 billion in 1986/87. The subsidy for machinery and fertilizer alone was Rbl. 5 billion in 1986. The contribution of the agricultural sector to National Income in 1985 was Rbl. 112.2 billion. Taking the subsidy in agriculture to be Rbl. 50 billion for 1985 means that the subsidy was almost 50% of the contribution of agricultural sector to national income.

The State Committee for Prices does not fix market prices for either consumer goods or producer goods. For consumer prices, USSR's price control has become quite irrational in the sense that the policy has been to keep retail prices stable - the nominal prices of some basic foodstuffs have been the same for more than 20 years. This has meant that the consumer has little idea of the actual scarcity of products which free market prices are supposed to reflect. Thus he may be consuming more of the scarce products than economic rationality indicates and less of some of the abundant ones.

In fact, this kind of price control in which retail prices are kept stable for several years has brought about weird wastes, like the use of bread as cheap animal feed. As already indicated above, it has also meant large subsidies.

In fact, food subsidies equal to about 10% of National income have been reported. These subsidies are basically subsidising the consumers in contrast to the subsidies existing in some other countries which subsidise the producers (namely farmers). Thus in the Soviet system these subsidies encourage the consumers to demand more food rather than encouraging the producers to produce more, i.e. these subsidies are not contributing towards investments for increasing production efficiency but are being wasted to subsidise consumers of these products.

It may also be mentioned here that agriculture is supplied with electricity, gas, mixed feed and other products at preferential rates. The irrigation water supplied by the state is hardly charged for. Hence Kolkhozes and Sovkhozes have less of an interest in fully utilising all their resources, increasing labour productivity and reducing the prime costs.

It is now realised that continuation of the policy of subsidising agricultural inputs does not promote their rational use. The 13th Five Year Plan (1991-1995) aims at abolishing the two tier price system for means of production and other forms of subsidies for industrial products supplied to agriculture. The importance

of reforms of price system has been well recognised by the present regime. In fact the 27th Party Congress mentions¹

"Prices must become an active factor of economic and social policy. We shall have to carry out a planned readjustment of the price system as an integral whole in the interests of organising effective cost accounting and in conformity with the aims of increasing the real incomes of the population. Prices must be made more flexible; price levels must be linked up not only with the outlays but also with the consumer properties of the goods, their effectiveness and the degrees to which products meet the needs of society and consumer demand. Ceiling prices and contract prices are to be employed more widely".

The June '87 Plenum also states "Taking account of the political and social importance of price formation reform, it must be a subject for the broadest discussion in the Country". Subsequently, on 17th July, 1987 the Central Committee of CPSU and the Soviet Government adopted a resolution on price restructuring ("Resolution No. 819" on the Basic Guidelines for Restructuring the price system under the conditions of the New Economic Mechanism). This important resolution has been adopted on the basis of the evaluation of the drawbacks of the price mechanism prevailing in the Soviet economy.

1. Mikhail Gorbachev, Political Report of the CPSU Central Committee to the 27th Party Congress, Page 40.

The existence of persistent shortages of food items indicates that food prices in USSR should be jacked up. In fact Mr. Mikhail Gorbachev is introducing food price rise through the back door by encouraging more food to be channelled through the uncontrolled and higher prices of 'Kolkhoz' markets rather than through state sources. In fact, for the non-food consumer items a healthy dose of competition from private enterprises could keep prices down (for example, for hair-dressing, electrical repairs).

Soviet economists have begun a review of the entire system of prices including retail ones in the country and are expected to complete this job by 1991. As stated by Valentin Pavlov, Chairman of the USSR State Committee for Prices² :

"It is as yet too early to say what will cost what. It is important to stress, though, that the reform in the making is not seen as a means of increasing the state budget and as an offensive on the working people's living standards. When the proposals for the new prices are ready, they will be submitted for a wide discussion, just as has been said at the top level."

2. Valentin Pavlov on Pricing Reform, TASS, 14th November, 1987.

Finances and Prices as discussed in the Law on the State Enterprises.

It should be the endeavour of every enterprise to ensure growth of profits through increased labour productivity, reduced prime costs, improved quality of output and better use of funds for production at its disposal. An enterprise carries out its functions in accordance with the five year plan and annual financial plans. Long-term economic normatives decide about the financial relations of an enterprise with the budget. The enterprise pays into the budget for resources placed at its disposal, part of its profits as decided by the normatives and other payments as provided by law. No appropriations can be made from the enterprises' profits above the set norms. It is necessary for the enterprise not to run on a loss and in a situation of a loss the enterprise is financed by a superior organ through subsidies as decided by the five year plan. Any loss caused to other organisations are to be charged from the collective's financially autonomous revenue. Similarly, any amounts received by the enterprise as loss reimbursement are added as collective's financially autonomous revenue.

With respect to price formation, the enterprise exercises its rights in line with the requirements of state management and principles of price regulations. Prices are expected to encourage production efficiency, improve the quality of output and reduce the prime costs of output. The enterprise has to ensure that the prices comply with certain price limits.

The price at which an enterprise sells its output is either set on a centralised basis or determined by agreement with the consumer or independently. From this it is not clear exactly how an enterprise in a particular industry would set its price since there seem to be three possibilities. Though the Law does include the possibility of an enterprise setting its prices independently, it is difficult to say what would be its implication in practical terms, i.e. how many enterprises would actually be setting their prices independently. Further, the enterprise can still make a loss and be subsidised for it. That is, the economic reforms do not seem to envisage the existence of a hard budget constraint for an enterprise. Certainly, many more restrictions are being put on an enterprise regarding the price structure and it is also expected that an enterprise must not permit prices to inflate.

As mentioned above, the enterprise can sell output at prices fixed in agreement with consumers. This would give more autonomy to an enterprise as compared to a situation where prices are set on a centralised basis. It would also enable incorporation of individual consumers needs. These prices, called contract prices would be determined in accordance with the procedure laid down by the State price formation organs. As regards prices of the State farms and other State agricultural enterprises, these enterprises have the right to independently set prices for industrial output produced by them, for part of the planned output and for all the above plan agricultural produce sold through their own network and for output sold within the agro-industrial combine. This also applies to prices for services.

Credit and Accounts

The Law on the State enterprise states that the enterprise must ensure efficient use of credit facilities. Though the law states that an enterprise may lose its right for further credit in a situation of breach of loan repayments, it also states that such credits may be obtained

subject to guarantees by superior organs. The possibility of an enterprise to become insolvent exists in a situation when it systematically fails to abide by the repayments schedule. The bank has the right to decide whether or not to cover such an enterprise's liabilities.

It would seem that the post-1985 reforms do signify many changes in the realm of an enterprise's activity. Notwithstanding this, they do not amount to the kind of economic rationality which characterises price formation under objective conditions. That is, while there exists a semblance of a hard budget constraint, it would not be an all pervasive hard budget constraint. Similarly, the emphasis on utilising cost accounting principles for price formation exists but prices can still be set either through a centralised means or in agreement with the consumer.

Chapter - VI

Conclusions

In the context of socialist economics, economic reforms refer mainly to replacement of detailed plan instructions by economic regulators. Hungary serves as a good example of a country where economic control and management has been relying on economic regulators instead of plan instructions from early 1970's. This has resulted in greater efficiency in the planning of the economy and an improvement in economic growth.

By shifting to a system of economic regulators, a socialist economy dependent upon only planning in managing the economy gives more autonomy to its enterprises, takes advantage of the international division of labour, establishes a balance between demand and supply, achieves a more optional allocation of factors of production.

By delegating more authority to the enterprises, the central authorities can devote more energy to the main problems of development of the economy. The main directions of development and the policies for achieving them were still centrally decided in Hungary when the system of economic regulators were introduced. Though the enterprise managers have greater autonomy, they have to function in conformity with the economic policies laid down by the central authorities.

The earlier chapters have already gone into the various questions relating to economic reforms in USSR, since 1965. While some efforts were made to liberalise the rigid controls on the economy through the economic reforms of the 1960s' they did not amount to any substantive change in the economic functioning. There were efforts towards increasing the role of the market mechanism (by reducing the number of directive indicators and increasing the independence of enterprises) but this did not amount to the creation of a new, internally logical system. The new system of planning and economic stimulation by increasing the workers' interest in the results of their work, led to a level of profits for some organisations which far exceeded the planned level. With respect to prices, proposals were put forward for fixing prices more objectively. However, no significant results were achieved in this respect.

The second spate of major economic reforms came in the post - 1985 period when Gorbachev came to power. The Law on State Enterprises, in fact, does signify some major changes in the system of functioning of the economy as already elaborated upon in Chapter III. While it grants more autonomy to enterprises, it also expects that enterprises function on the principles of full cost accounting and self financing. However, it is not clear if

all loss making enterprises would ultimately be made to close down. On the question of prices, Soviet Economists have begun a review of the entire system of prices (including retail ones) in the country and the job is to be completed by 1991. The Law on State Enterprises mentions that prices can be set in either of the following ways - on a centralised basis or in agreement with the consumer or independently by an enterprise. It is not clear to what extent the third alternative would actually apply. Thus, one can not say to what extent the prices would be objectively fixed prices.

Another attribute of a market economy viz., competition, is also touched upon in the Law on State Enterprises. It states that competition between enterprises would be encouraged and the State would plan for the best quality in production at the lowest cost.

There is also ^a mention in the Law of opening up the economy to external economic forces so as to take advantage of technological developments abroad.

Quite evidently, the post - 1985 economic reforms contain within them the seeds of far-reaching changes in the economic system characterising the USSR. While in some respects the economic functioning has already witnessed

marketisation (eg., some loss making units have been closed down), in other major respects only the future years would reveal the course that the economy would take. A number of new economic policies have to be are being translated into statutes etc. which is undoubtedly a difficult task. Besides, the cooperation of the working people in all fields is another important determinant of the success of the new economic policies.

There is also an attempt to reduce the control of the Party on the economic activity of enterprises. The Directors of plants and factories and some other functionaries of the enterprises would no longer be appointed by party organisations but would be elected officials and not subject to dismissal by the party organisations. However, it is doubtful whether the party would loose effective control over the functioning of enterprises. In fact, this may turn out to be one of the most serious obstacles in the implementation of economic reforms.

Thus the economic reforms of post - 1985 period which imply significant changes in the socio-economic and political fields have still to pass the test of time, before one can say anything about their ramifications for the economy of USSR.

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