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# How the Soviet Economy Is Run



Discussing Advanced Socialism

First steps  
Five-year plans  
Management organisation  
To each according to the work he does

**Leonid ABALKIN**

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Five-year plans  
Management agencies  
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The author ably describes the essence of the management of the Soviet economy and its main problems. Competent argumentation and the wealth of factual material, including excerpts from Party documents and the Constitution of the USSR, effectively help to expose bourgeois falsification of Soviet reality and to show the democratic character of the planned management of the economy of the Soviet Union.

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This pamphlet may be of use to the peoples of the socialist-oriented developing countries that have begun to organize their management of the national economy on socialist principles.

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Леонид Иванович Абалкин

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## INTRODUCTION

### A Product of Socialism

*Management*, or control, is part of the many processes and phenomena determining the outlook of the contemporary world.

While remaining an art, management now has reliable helpers in electronic computers. Men have learned to control highly complex machine tools, cars, planes and spaceships. Probing into the secrets of living matter, they begin to control the development of plants and animals.

Social life, economic life included, is the most complex area of management. It lends itself to regulation with great difficulty, and it is understandable that experts and laymen alike should take a keen interest both in the findings of research and, especially, in practical experience in this field.

The Soviet Union has the richest experience in running an economy on a nationwide scale. It is a fact of history, and whether one likes it or not, one cannot deny that for more than six decades now the Soviet national economy has been managed on the basis of unified state plans.

It is the intent of the author to satisfy to some extent the interest shown in many countries in the theory and practice of planned management of the economy. In a small book, one can only set out the most general propositions of this theory and describe only the most characteristic practical aspects of planning. Therefore this book is intended, not so much for professional economists, as for people interested in problems of management and wishing

to learn more about the way the economy is run in the largest of the socialist countries.

#### To Manage Is to Foresee

One short clarification before we take up the subject. Economics is a very broad concept often used to denote a range of different things. Amidst all these differences two distinct aspects show quite clearly: the technical and the social. Both are reflected in management. In the technical sense, management has to do with machines, instruments, etc. Men control machines and mechanical systems, and this calls for professional knowledge and special skills. In principle, however, management of this kind pertains to the technical aspect of production and, strictly speaking, remains outside the sphere of economics. It is devoid of any social elements. The rules of driving a car or operating a milling machine are mainly the same in the USSR, in the USA, in France and in Portugal.

What we are going to examine is the social aspect of management of the economy, i.e., a sphere where the objects of management are not things but men and their social relations. Using an analogy, we may say that what interests us is not how the musician controls his instrument, but how the conductor controls the orchestra.

Economics as a totality of the relations between men in the realm of production, distribution, exchange and consumption of goods includes, of course, the movement of material values, that is, of things. But the point is that relations between men do not form on their own, but *in regard to*

*the production and appropriation* of goods. This is the basis of economic science. Behind the relation to things stand real relationships between people, the motives and aims of their activity. To manage the economy means to foresee the future, actively to influence the actions of people, and to orientate them in a definite direction, towards working for a set goal.

This constitutes the socio-economic aspect of management of the national economy. It is this aspect and the Soviet Union's experience in this field, that is dealt with in the book.

## I.

**THE COUNTRY OF ORIGIN  
OF NATIONAL ECONOMIC  
PLANNING**

**From Ancient Times**

The title of this chapter may give rise to a puzzled question: The author seems to think that planned economic management originates from the Soviet Union. Is it really so? Doesn't management of economic processes date back to ancient days?

It is true that the sources of management are rooted in antiquity. For instance, the Egyptian pyramids could not have been built without directing the joint labour of the tens of thousands of their builders. Similarly, without management, the construction and operation of ancient irrigation systems would have been unthinkable.

Generally speaking, any joint work on any more or less large scale needs management. A building or production team must have its team leader; an orchestra, the conductor; a military unit, the commander. This is all the more true of collective work in a modern enterprise, in a firm. Different systems of organization and management (and here the names of Taylor, Emerson and Ford come to mind) also originated prior to the rise of the Soviet state.

And yet it is precisely in Soviet Russia that national economic planning came into being. For what we are talking about is not management of a team of workers or a factory. This kind of management—and a highly efficient one, at that—did exist prior to

the emergence of socialism. But only after socialism had asserted itself as a state system did management of the national economy of a whole country, economic management on the basis of a single state plan, become a reality. Prior to October 1917, when a socialist revolution was accomplished in Russia, such management did not and could not exist. Anarchy of production reigned in the country, and the economy was periodically hit by unavoidable destructive crises. This is an irrefutable and well-known historical fact.

**Wherein Lies the Secret?**

Indeed, what made the change possible? Perhaps there suddenly appeared particularly gifted people who solved the problem posed by history, that of learning how to operate the national economy of the country as a single whole? That was not the case. References to the appearance of men of genius are usually made when the objective laws of social development are not known.

It was not, of course, the appearance of talented people that played the decisive role, although, as has been noticed and proved by historians, various talents manifest themselves precisely where changed social conditions have prepared the ground for the practical display of these talents. The new historical conditions that took shape in Russia after the socialist revolution did give scope for the activity of many gifted organizers of production and pioneers in planning the development of the national economy. But the secret of the birth of the system of national economic planning should be sought in

the *new social conditions* to which the socialist revolution had given rise in Soviet Russia.

Let us recall the essence of the changes that took place. Having taken power in alliance with the peasantry and the other strata of working people, the working class abolished private capitalist ownership of the means of production. The factories, mills, banks, and railways passed into the hands of the working people who had created them. The land, its mineral wealth and everything produced on it became public property. The exploiting classes were forced out of the historical picture.

All this had far-reaching consequences. The bulk of the means of production (the remainder belonged at that time to peasants carrying out individual farming) now had one owner and master—the people as represented by their *state*. The age-old antagonism of interests, when one person (the owner of the means of production, of the land) enriched himself at the expense of another (the worker or peasant), ceased to exist. This is a natural result of the establishment of public (state) ownership, for enterprises having one owner (the socialist state) cannot enrich themselves *at each other's expense*. Moreover, every worker and every work collective became directly interested in the success of the common cause, and in the effectiveness of the national economy as a whole.

All this prepared the ground for the introduction of planned management of the national economy, which was then an inevitable and feasible development.

### The GOELRO Plan

It stands to reason that a single national economic plan could not be drawn up the day after the victory of the revolution. A great many complex organizational, scientific and technical problems had to be solved first. Besides, nowhere had there been any previous experience in elaborating such plans. A difficult pioneering trail had to be blazed; new, hitherto unknown forms of economic management had to be created.

There is hardly any need to give a detailed account of all the preparatory steps, of all the stages the country passed through on the way to working out the world's first truly rational long-range plan for national economic development. It is a whole new topic, which includes, among other subjects, the introduction of workers' control in private enterprises and the establishment of the Supreme Economic Council. The point that has to be made here is that *Vladimir Lenin, the founder of the Communist Party of the Soviet Union, was the initiator and inspirer of the work to draw up such a plan, which was called the State Plan for the Electrification of Russia (GOELRO for short)*. The head of the first Soviet government, brilliant theoretician who made an outstanding contribution to the social science, realized better than others the need for managing the national economy on the basis of a single state plan, and formulated the principles of national economic planning under socialism.

Why was the first national economic plan called a plan for electrification? This was extremely significant. From the very beginning of planned manage-

ment the tasks were set of rationally using all the major achievements of science and technology for the good of the people, of eliminating poverty, illiteracy and cultural and technical backwardness, and of developing the economy on a modern scientific and technical basis. Only in this way was it possible to restore the national economy ravaged by the First World War and then the Civil War, in order to lay the groundwork for solving the entire range of economic and social tasks. In its generalized form this task was formulated as the electrification of Russia. Ever since, the mastering of the latest scientific and technical achievements and of progressive experience and their utilization to improve the life of the people has been an immutable principle of socialist planning.

The GOELRO plan was drafted by a special State Commission headed by Gleb Krzhizhanovsky, an eminent scientist and revolutionary, one of the organizers of the planned management system. He reported on the GOELRO plan to the 8th All-Russia Congress of Soviets. The commission secured the participation in drafting the plan of more than 200 prominent scientists, engineers and agronomists, among them members and research workers of the Academy of Sciences and professors and lecturers from universities and other institutions of higher learning. The drafting was done within a comparatively short time, and by the end of 1920 the plan was completed.

To give an idea of the conditions in which this work was carried out and the plan adopted, here are a few examples. The Civil War was practically over, the invading troops of 14 imperialist states

had been defeated and the period of peaceful construction had just begun. The country lay literally in ruins. The imperialist intervention had wrought colossal damage to the country. In 1920, industrial production equalled one-seventh of the level of 1913, the last prewar year when tsarist Russia had attained the highest level of its industrial development.

One more detail. A large electrified map was installed in the hall where the sitting of the 8th All-Russia Congress of Soviets heard the report on the GOELRO Plan. The major construction projects envisaged in the plan were indicated on it by electric bulbs. To light that enormous map, all the other consumers of electricity in Moscow had to be cut off. This shows how poor the country was, and, specifically, how little electricity it produced.

The famous English science-fiction writer Herbert Wells, who visited Russia at that time, was stunned by the scope of the devastation. In his book, characteristically entitled *Russia in the Shadows*, he called Lenin "the Dreamer in the Kremlin". Even Wells, famed for his visions of the future, termed the GOELRO Plan a "Utopia of the electricians". He did not believe in the possibilities offered by economic planning and in the potentialities of a people who had taken the destiny of the country into their own hands.

Disbelief was expressed also by many who took a sympathetic view of the work started in October 1917. And there was nothing surprising in this, for the world had never known anything similar to the GOELRO Plan before. It was the first long-term



national economic plan in which the bold flight of thought was combined with strictly scientific calculations.

Covering a period of 10-15 years, the plan provided for the construction of 20 thermal and 10 hydraulic power stations. The generation of electricity in the country was to increase 4.4 times compared with 1913 or 17.6 times compared with 1920, and industrial production was to double compared with 1913 and to go up more than 14 times compared with 1920. These overall targets give an idea of the magnitude of the tasks that were set in the plan.

How enthusiastically the plan was tackled is testified by the figures given in Table 1, which hardly need comment. Their comparison shows that the Soviet people, aware that they were working not for capitalists, but for their own benefit, for the good of the whole society of equal men of labour, proved the feasibility of a plan which was regarded as unrealizable even by such a fantasm as Herbert Wells.

Table 1

**Fulfillment of the GOELRO  
Plan (Industry)**

	1913	1920	GOELRO Plan	1935
Total industrial output (1913=1)	1	0.14	1.8—2	5.6
Electricity, '000 million kwh	2.0	0.5	8.8	26.3
Coal, million tons	29.0	8.7	62.3	109.6
Steel, million tons	4.3	0.19	6.5	12.6

**First Steps**

The GOELRO Plan was the opening chapter of the history of national economic planning. No matter how greatly the magnitude of economic planning has increased since then and will increase in the future, that first daring experiment will for ever remain the starting point of its chronology. The fulfilment of the GOELRO Plan was a real triumph of socialist construction, of planned management of the economy. With the adoption of this plan Russia became the country of origin of national economic planning.

Great changes have taken place in the Soviet economy and in the system and methods of planned management since then. The final stages of the implementation of the GOELRO Plan coincided with the launching of the first Soviet five-year plans. These will be dealt with at a later point. During the period under discussion, the need arose for a special agency as the supreme planning authority. In February 1921 (two months after the approval of the GOELRO Plan), the State Planning Committee (Gosplan) was formed by the decision of the government. All subsequent history of socialist planning is connected with the work of Gosplan, which remains the principal planning body in the USSR.

Recalling the history of the establishment of Gosplan, Academician Stanislav Strumilin, an outstanding Soviet economist and one of the founders of the theory of planned management, wrote: "There was no ready-made blueprint for organizing such an institution, for the world had not

known of anything like it before. Both science and the public had to be employed in its service. It was necessary to devise new methods of highly academic work, but without any 'academism', and with highly topical practical conclusions, but without a shade of bureaucracy. The realization of the new tasks called for the training of new specialists in national economic planning on a scale unheard of in world history, and the elaboration of a number of new planning disciplines for these specialists."

National economic planning was organized and developed simultaneously with theoretical work in this field. Of fundamental importance in the theory of economic planning is the question of the compatibility of the objective laws of social development with the recognition of the active transforming role of consciousness.

#### **Is It Possible and Necessary to Plan the Economy?**

Marxist-Leninist theory maintains that social progress, including economic growth, is subject to objective laws over which human will and consciousness have no power. If this is so, there seems to be no need for planning! For objective laws can be neither abrogated nor modified. On the other hand, if we recognize the active role of purposeful management, of human will and consciousness, the conclusion on objective laws seems irrelevant.

This formal contradiction arises from a superficial approach to the problem. To get one's bearings in it a distinction must be drawn first of all between objective laws themselves and their utilization.

People can use one and the same law in different ways, obtaining different, at times opposed results. Take the tragedy of Hiroshima and Nagasaki and the constructive purpose served by atomic power stations. In principle, in both instances use is made of the same objective laws governing the fission of the atomic nucleus. But how greatly the results of this use differ!

It's much the same in economics. The laws of development of a socialist economy provide the possibilities of economic growth, of raising the efficiency of social production and of improving, on this basis, the wellbeing of people. These potentialities exist independently of our consciousness. But the extent of their utilization and the benefits to society depend directly on the quality and aims of management, that is, on the ability and will of people.

One more point. In nature as such, the objective laws of development operate totally independently of the will of man. Indeed, no one will endeavour to accelerate or slow down a solar eclipse. Men can only *know* the objective laws of nature and *use* them for their purposes. In economic life, laws manifest themselves only through human activity. It goes without saying that, in order to apply economic laws effectively, people must act in concert, and this is possible only when they have common interests. In turn, common interests arise when people have a single common economy, i.e., when public ownership of the means of production exists.

In other words, the theory of planned management of the economy rests on the recognition of the necessity and possibility of such management

under public ownership of the means of production. It proceeds from the fact of the operation of objective economic laws and provides for the elaboration of forms and methods of their application. Determining the outlook for the development of the national economy and its parameters for one, five, or more years, the theory of planned management rests on processes of real life, on objective tendencies. Besides, it regards economic development itself not as purely quantitative growth, but as a process which includes profound qualitative changes.

**Not a Prediction, but an  
Accurate Calculation**

The latter point is very important. The simplest way to foresee the future is by extrapolation, the projection of past processes into the future. But it is also the most unreliable method. It rules out the possibility and necessity of qualitative leaps, of structural changes. These views gained some currency during the initial stages of socialist planning, when, from the fact that primarily light industries had been developing in Russia in the past, the conclusion was drawn that further progress should proceed in the same direction. Experience showed that these views were short-sighted and erroneous. One cannot build the roof without first laying the foundations and erecting the walls.

Naturally, it is not an easy thing to make provisions for qualitative, structural changes in the economy. But the theory of planned management proved their necessity and worked out forms and

methods of bringing them about, determining also the main outlines of truly scientific forecasting of economic growth.

A salient feature of the planned management theory is that, relying on the objective trends and regularities of development of the national economy, it regards management as an active, transformative factor. Therefore economic plans are not a passive prediction of the future, but a strict scientific calculation, an instrument of activity, a tool used in making this future. It is, however, essential to remember (and this is a fundamental proposition of the planned management theory) about the role of both factors. A plan must not be a merely passive prognosis. But it would also be a mistake to lose touch with reality and believe that "all is possible". This approach, which ignores the objective conditions, would inevitably lead to a rift from reality, to idealistic hare-brained scheming.

The scriptural yardstick, "...Yea, yea; Nay, nay: for whatsoever is more than these cometh of evil" (Mt. 5:37), is inapplicable to social phenomena generally and economic ones in particular. The active aspect of planned management under socialism does not rule out recognition of objective laws. On the contrary, it serves as a means of their fullest and most consistent implementation.

The planned management theory has worked out a number of methods which now form an integral part of the armoury of modern science. True, by far not all scientists, let alone the broad sections of laymen, remember the origin of these methods. Here are only two examples by way of illustration.

In the 1920s, proceeding from the requirements of planning, the Central Board of Statistics of the USSR devised templates for the analysis of intersectoral economic ties. It is precisely these templates that subsequently gave rise to the intersectoral balance method and the input-output economic analysis models suggested by the American economist Wassily Leontief. The scientific foundations of these models owe their origin to the practice of planned management. Incidentally, Leontief himself, who lived in the Soviet Union at that time (until 1931), was well familiar with the work of the Central Board of Statistics.

The requirements of planned management gave rise also to the linear programming methods first proposed in the late 1930s by the Soviet mathematician and economist, Leonid Kantorovich, now an Academician and State, Lenin and Nobel prize winner.

A theory is best tested by practice. From this point of view the planned management theory has been fortunate. It has been put into practice in the Soviet Union and other countries that embarked upon the socialist path. We have reached the point in our narrative when we should deal with the practice of national economic management.

## II.

### THE HUMANISM OF AIMS AND THE EFFECTIVENESS OF METHODS

The management of any complex system presupposes clear understanding of aims and principal ways and means of attaining them. Let us begin with the question of the aims of planned management of a socialist economy. Elaboration of aims is an essential component of the management system, a truth which is confirmed by the dictum that a seafarer not knowing his destination may never reach the shore.

So far as national economic planning is concerned, there are the strategic, long-term aims and the aims of a relatively local significance, those to be reached in the near future. To build a power station by a certain date, or a grain elevator, a car factory or a new residential community are all partial aims. However important, they must not eclipse the main aim for the sake of which all is built.

#### The Supreme Aim

In the Soviet Union this term is used to denote the main, long-term aim to which all other aims are subordinated. Now, what is our Supreme Aim?

Let us recall that, at the outset of our discussion of management of the national economy under socialism, we spoke about the establishment of public ownership of the means of production, of the fact that the people became the full and sole master of the land and its mineral wealth, factories, power

stations, schools, hospitals, and so on. It is only natural for the Soviet people to use the social wealth in their own interests, to improve their life. That is what determines the supreme aim of the development and management of the economy. There can be no other aim in a country where the means of production belong to the people. Such is the logic of life and of social development.

It is the attainment of this aim that the system of national economic planning serves. For its sake the state extends production, introduces new achievements of science and technology, and raises the efficiency of the economy. All this found expression in the new Constitution of the USSR adopted on October 7, 1977, which gives a clear-cut formulation of the supreme aim of socialist production and determines the means of attaining it:

*"Article 15.* The supreme goal of social production under socialism is the fullest possible satisfaction of the people's growing material, and cultural and intellectual requirements.

*"Relying on the creative initiative of the working people, socialist emulation, and scientific and technological progress, and by improving the forms and methods of economic management, the state ensures growth of the productivity of labour, raising of the efficiency of production and of the quality of work, and dynamic, planned, proportionate development of the economy."*

**Production Is a Means,  
Not an End in Itself**

Other aims of planned management, which may be top-priority ones at a particular stage, are

subordinate to the supreme goal. As has been noted, socialist construction in the USSR was launched in extremely difficult conditions. The national economy had been ravaged by wars and the foreign armed intervention. There was no heavy industry to speak of. The national income was pitifully small. While for ever keeping in mind the supreme goal of socialist production, the country had to start with rehabilitating the economy, building heavy industry and strengthening its defence potential. Privations, such as keeping personal consumption low, had to be accepted and sacrifices made for this purpose. They were made for the sake of the future, for the sake of a better life of people in the long term. The Soviet people realized this and readily agreed.

Even today it is at times claimed that production in the USSR is developed for production's sake, the interests of people being relegated to the background. This is either the result of poor information or a deliberate slander. Production in the USSR has never been the supreme aim to which all other aims were subordinated. At definite stages, the growth of heavy industry—fuel, metal-manufacturing, machine building and energy production—did constitute the main task, but in the long run it always remained merely a means of attaining the supreme goal of fuller satisfaction of the material and cultural requirements of the people.

History has fully borne out the correctness of the efforts that were made during the initial stages of national economic planning. Had not heavy industry been built up in good time, the Soviet Union would have been unable to beat off and

defeat the fascist aggressor in the Second World War. There simply could be no question of giving priority to welfare at that time.

The industrial potential created in the country enabled it to concentrate on social tasks subsequently, and to make the supreme goal of socialist production an immediate practical aim of planned management. This took place in the postwar period and especially in the past decade, when raising the wellbeing of the people was made the chief task of economic development.

The concrete measures that have been and are being implemented to improve the life of the people will be described in a later chapter. Here we shall examine the question of the aims of planned management. To what has been said above I would like to add the following.

#### **The Order of Priorities**

The economic planning mechanism has a whole system, or hierarchy, of aims. Whatever is a means of attaining the supreme goal, e.g., growth of national income, enhancement of labour productivity, acceleration of scientific and technical progress, and so on, it itself becomes an aim of economic planning. These are, so to speak, aims of the second order. In turn, the means of their attainment (the construction of new enterprises, the retooling of production, and the advanced training of personnel) are also aims, but already of the third order. And so on.

To define the entire system of aims clearly and to allocate priorities correctly is an exceedingly

difficult but feasible task thanks to the community of interests of society as a whole, of social groups, and of individual members of society.

Who passes decisions on these questions? Who has the final say in determining the aims and laying down the sequence of their attainment?

#### **The Aims Are Formulated by the People**

It has always been and will remain that way: he who pays the piper calls the tune. Under socialism, the final say belongs to the people. This is not a mere declaration of the author, but a description of the actual state of things in the Soviet Union. The aims of economic planning are chosen on the basis of extensive democratic processes with the use of direct and representative democracy. In this way the people also predetermine the main forms by which their right to management is realized.

#### **Nationwide Discussion of Draft Plans**

This may be called the first form of the exercise of the right of the working people to manage production.

This is how it looks in practice. The planning agencies establish scientifically-based proportions of future economic growth—the relationship between industry and agriculture, between producer goods (lathes, machines, plant, etc.) and consumer goods (clothing, footwear, TV sets), between extractive and manufacturing industries, and so on. The *plan balances* for specific materials (coal, oil, metals,

textiles, etc.), for manpower and finance, which are established in this way, bring the current and expected requirements of the national economy into conformity with the possibilities for meeting them.

Using electronic computers widely, the central planning agencies (USSR GOSPLAN), integrate all the preliminary plan estimates into a single *balance of the national economy*, which is the basis for drafting guidelines for the development of the national economy. Several months before the adoption of the plan, the draft is published in the press and its nationwide discussion begins—at workers' meetings, in the press and other mass media.

For instance, the draft guidelines for the country's development, worked out by the Central Committee of the Communist Party of the Soviet Union within the framework of preparing the plan for the Soviet Union's economic and social development for 1976-1980, were discussed at enterprises, institutions and farms all over the country. In the course of the discussion, 7.6 million people expressed their opinion. While approving the draft, they submitted more than one million proposals and suggestions particularizing the targets of the plan. An authoritative commission was set up to examine these suggestions and incorporate them in the plan.

The public discussion of the draft plans of branches of the economy, and of individual enterprises is equally active. The new USSR Constitution has given legislative enforcement to the right of work collectives to take part in discussing and deciding state and public affairs, in planning production and social development, and in discussing and deciding matters pertaining to the management

of enterprises and institutions. In this way, in keeping with the Constitution, the state plan is handed down to the enterprises as a *law* whose basic provisions have already been discussed by their work collectives. This is one of the manifestations of direct democracy, under which each citizen can and does take part in running the economy.

#### Endorsement of Plans

State plans are adopted on the scale of the whole country by the USSR Supreme Soviet, the highest body of state authority whose deputies are elected by secret ballot on the basis of universal, equal and direct suffrage. The development plans of the Union and Autonomous Republics, regions and cities are approved by the respective local bodies of state authority.

Through their representatives, people's deputies, citizens take part also in deciding major questions pertaining to the management of the national economy, in determining the aims of economic planning and in fixing priorities.

Representative democracy is one of the principal forms of genuine government by the people. Incidentally, the people's deputies in the USSR are not professional politicians but are direct representatives of the people, of all their social strata and groups. The composition of the Soviets of People's Deputies is indicative in this respect. Today, more than two million factory and office workers, peasants, workers in science, culture and other fields are deputies to the various Soviets. In addition, almost 30 million citizens help the Soviets as per-

manent volunteers in their free time. There are over nine million in the elected bodies of people's control.

Workers directly from factory and field account for more than half of the 1,500 deputies to the USSR Supreme Soviet. There are also many representatives of the intelligentsia—economic executives, specialists, scientists, workers in culture and the arts and in the public education and health systems—and heads of central and local government and Party bodies.

#### **Once More on the Purposes of Planned Management**

The main, strategic purpose of development of the socialist economy is improvement of the material and cultural standards of the people. At the same time, during every five-year cycle of development, this supreme goal is specified with breakdown by years, for which concrete tasks are set as regards growth of the real incomes of the population, housing construction, development of the public health and education systems, production of consumer goods and improvement of their quality, protection of the environment, promotion of sport and tourism, publication of books, newspapers and magazines, and improvement of the work of museums, libraries, theatres, cultural centres, etc. In other words, planned management ranges over the many different spheres connected with raising the material and cultural standards of the people.

Plan assignments for all these spheres take the form of concrete tasks and the national economy

is oriented towards attaining them. It is clear from this why the drafting and discussion of economic plans always rouses such lively interest among the different sections of the population and why these plans are invariably, and unanimously, approved. Without bearing this fact in mind it will be difficult to comprehend the proceedings and phenomena that characterize the Soviet way of life.

The setting of some or other concrete aims for raising the people's wellbeing proceeds from the ideals and system of values accepted in society, from the concept of the socialist way of life. This question merits closer examination.

#### **The Socialist Way of Life**

This complex, dynamic and many-sided concept comprises, of course, provision of material wellbeing, but the ideal for which Soviet people are ultimately striving, and which is gradually becoming a reality ("man lives not by bread alone"), is a harmoniously developed individual, which presupposes the introduction of all Soviet people to the treasures of science and culture, the cultivation of civil qualities, such as patriotism, fraternal solidarity with the working people of other countries, a spirit of collectivism, love for peace, mutual respect, and concern for the common good.

The socialist way of life is characterized by respect for labour, awareness of its social importance, a solicitous, thrifty attitude to nature and the society's wealth. This is only natural, for there is no division of Soviet society into those who work and those who do not. All are working people, and



therefore all the fruits of social labour belong to the working people, and to them alone. Hence respect for the man of labour and a new attitude to labour which is regarded as a matter of honour, for it not only provides means of subsistence, but also determines the social value of the individual, his position in society.

To raise the standard of living of the people and to further the all-round development of the individual, the socio-economic and production conditions of labour are being improved. This is one of the aims of management of the socialist economy. The task of gradually reducing and ultimately eliminating arduous physical labour has been set and is being consistently carried out. Persistent work is conducted to invest labour with a creative content, to improve its aesthetic conditions and to remove the monotony of labour processes.

#### **To What Extent Is the Socialist System Effective?**

The value, historical advantages or weak points of this system should be judged, not by the words of biased critics or embittered renegades, but by its concrete deeds, by the end results of its activity. Let us therefore turn to facts illustrating the results of planned management.

At first, however, the following point of principle should be made. The concentration of all social resources in the hands of a single master, the people in the person of the state, which disposes of them on the basis of a single plan, rules out the vast losses caused by the constant concomitants of private capitalist production—anarchy, competition, economic crises and inflation—and makes for the most rational utilization of the natural resources, of the

production potential, and of the main asset of any society—its labour power.

Two facts have become today an irrefutable proof of the advantages of planned management.

First, economic planning has put an end to economic crises: for more than half a century now there have been no recessions and no stagnation in the Soviet economy. There has not been a single year (with the exception of the years of fascist aggression) when production fell or remained at the same level.

Secondly, economic planning has done away with unemployment. This terrible scourge of the working people does not exist in the Soviet Union and the other countries of the socialist community. With the help of planned regulation of production, industrial expansion and refitting and the development of service industries, proportionality is established between the number of jobs and the size of able-bodied population, which means complete employment. Economic planning effectively guarantees that vital right of man—the right to work.

Thanks to national economic planning, the once backward Russia has become a great industrial power. Of course, there have been crop failures, acute shortages of specialists, miscalculations, and failures in reaching planned targets. It is all the more gratifying to know that today the Soviet Union is in the forefront of social, economic, scientific and technical progress. Our subject is economics; therefore let us revert to facts from this sphere.

Today, the Soviet Union is the world's biggest producer of coal, oil, steel, mineral fertilizers,

tractors and diesel locomotives. This, to my mind, testifies to the great dynamism and potential of national economic planning.

The reader might have noticed that the above items are all products of heavy industry or means of production. But this can in no way be construed as corroboration of the thesis that under socialism the interests of man are sacrificed to the Moloch of production. Table 2 gives figures illustrating the Soviet Union's superiority over the wealthiest capitalist country, the United States, in per capita production of some consumer goods.

**Table 2**

**Per Capita Production of Some Consumer Goods in USSR and USA in 1977**

	USSR	USA
Cotton fabrics, sq m	26	21
Woollen fabrics, sq m	3	0.7
Leather footwear, pairs	2.8	2.1
Butter, kg	5.8	2.3
Milk, kg	366	257
Granulated sugar (from domestic raw material), kg	32	23

Here are some figures pertaining to the social aspects of improvement of the population's well-being. In the same year, 1977, there were 34.5 doctors per 10,000 people (the world's highest indicator). The US figure was 21.9. Every day in 1979 Soviet people have been receiving 6,000 new flats—more than the daily number ready for tenan-

cy in the United States, Great Britain and Australia put together.

As we can see, national economic planning ensures not only quick growth of heavy industry, but also a successful solution of important social problems.

**He Who Walks Faster Will Outwalk Those Ahead**

One more problem that has to be touched upon, one which is important for assessing the effectiveness of this or that system, in particular, of a system of planned management, is that of national-income and productivity indicators. It is a fact that the Soviet Union still lags behind the United States in these fields. But, taken outside its historical context, this fact does no more than state the existing situation. For it to actually "say" anything, it has to be viewed bearing in mind its dynamics, and historical interconnections, and the best way to do this is to turn to the figures contained in Table 3.

**Table 3**

**Average Annual Rates of Growth of National Income and Productivity in USSR and USA in the period 1951—1977 (%)**

	USSR	USA
National income	7.9	3.5
Productivity	6.7	2.3

The average annual rates of growth of the national income and social labour productivity are a reliable indicator of the dynamism and viability of an economic system. The better performance of the planned economy in this sphere is one more proof of its advantages, of its effectiveness. Clearly, he who walks faster is bound to overtake and outstrip those who are still ahead.

\* \* \*

So far, principal attention has been paid to Soviet planning as the pivot of the entire system of management of the socialist economy.

Now we shall turn to five-year plans as the basic form of national economic development in the USSR.

### III.

#### FIVE-YEAR PLANS

The Soviet people set about fulfilling the first five-year plan for the development of the national economy in October 1928. (At that time economic planners used, not the calendar year, but the economic year, which began in the last quarter.) Today they are completing the 10th. Thus, in the past half-century the Soviet economy has been steadily developing in accordance with five-year plans.

#### **Both an End and a Means**

The five-year plans have borne out the viability of the national economic planning system. All major socio-economic undertakings are based on them: the improvement of the population's standard of living, the establishment of new branches of industry, the reclamation of natural resources, and the accelerated development of formerly backward republics. Proceeding from long-term, strategic tasks, a five-year plan envisages a system of concrete interconnected assignments in all branches of the economy and enterprises, and for all Union and Autonomous Republics and Regions. These assignments have a binding character and serve as a means of organizing and coordinating the efforts of all the elements of the national economy, of all the working people of the country.

The five-year plans owe their effectiveness, authority and tremendous socio-economic role to the

fact that they determine both the aims of economic development in the next five years and the means of attaining them. Thanks to the plan, each economic unit and work collective clearly realizes its place, its role, what it is to do, how, and why. The unity of will and action that the five-year plan ensures turns it into a powerful accelerator of economic progress.

The history of the Soviet five-year plans is a glorious record of the heroic efforts of the people to overcome the age-old backwardness, to scale the summits of economic, social, scientific and technical progress, and to assert the ideals of humanism and justice. Each of these plans bears the imprint of its time, but all of them are united by a community of aims and methods. Like the stages of a mighty carrier rocket, the ten Soviet five-year plans have lifted our country to modern heights and placed it in an orbit of new achievements.

#### **The Prewar Period**

It's always hard to blaze a trail. The drafting of the first five-year plan was no exception. It involved strenuous efforts to work out and compare different alternatives, and to find the ideal model for a single national economic plan. It took some time to decide on the optimal-five-year-variant of the plan. Why exactly five years?

Today, half a century later, many issues have become clear. Among other things, the expediency of planning for five-year periods has been proved by experience. This has confirmed the correctness of the words of Gleb Krzhizhanovsky, the first

Chairman of Gosplan, who wrote in 1927, explaining why the five-year cycle had been chosen: "First, because five years is a period adequately covering the construction of large projects such as district heat and power plants, trunk railway lines, irrigation installations, etc. Secondly, there is a certain cyclicity in our agriculture which makes it possible to make the average annual crop yield the basis of long-term accounting over a period of five years . . . Thirdly, and lastly, the breakdown of the general plan into five-year cycles facilitates the division of overall economic tasks into major building stages conducive to concentrating the planners' thought on the principal elements of economic development as a whole."

By 1928, the Soviet Union had completed the rehabilitation of the economy. Production regained its pre-revolutionary level. This served as the starting point for the economic upsurge which was to begin with the first five-year plan. The numerous sceptical predictions expressed abroad were refuted by the selfless labour of the Soviet people, who fulfilled the plan in four years and three months.

This success was all the more striking against the background of the unprecedentedly severe crisis that was racking the capitalist system. The world crisis, or, as it was called, the "great depression" of 1929-1933 put back the economies of the leading powers many years (if not decades).

Equally impressive were the results of the 2nd five-year plan (1933-1937), which further strengthened the economic potential of the country and produced added proof of the advantages of a planned economy.

The implementation of the 3rd five-year plan was disrupted by fascist aggression: on June 22, 1941, Nazi Germany treacherously attacked the Soviet Union. A period of grim trials began. And if victory was won, if the aggressor was crushed and world civilization saved, this was in part due to the powerful economic and defensive potential of the Soviet Union built up as a result of the first five-year plans.

In the war years, in conditions of a constantly changing situation, the economic life of the country was ordered by operative plans, which made it possible to shift industries to the Eastern regions, organize the manufacture of advanced weapons, and ensure the supply of the population with foodstuffs despite the seizure by the enemy of the country's principal farming areas. It was one more test which the system of planned management passed with flying colours.

The first, prewar five-year plans embraced a relatively short period of twelve years during which immense economic transformations were carried out as a result of the purposeful policy of the Communist Party. The Soviet Union turned from a backward country into a great industrial power, advancing to **first place in Europe and second** (after the United States) in the world in the volume of industrial output. Whole new industries were set up, such as the motor and tractor, aircraft, machine-tool and chemical industries. Along with rapid growth rates in all branches of the economy, structural changes took place as a result of which the decisive role came to be played by industries producing the means of production, or producer goods (machines,

equipment, energy, fuel, and metals). In Soviet economic science these industries are called Group "A", as distinct from Group "B", which produces foodstuffs, clothing, footwear, cultural items, household articles, and other consumer goods.

As can be seen from the diagram on page 40, under these structural changes the volume of consumer goods production, far from decreasing, rose (4.2-fold). A general idea of economic growth during the prewar period is given by Table 4.

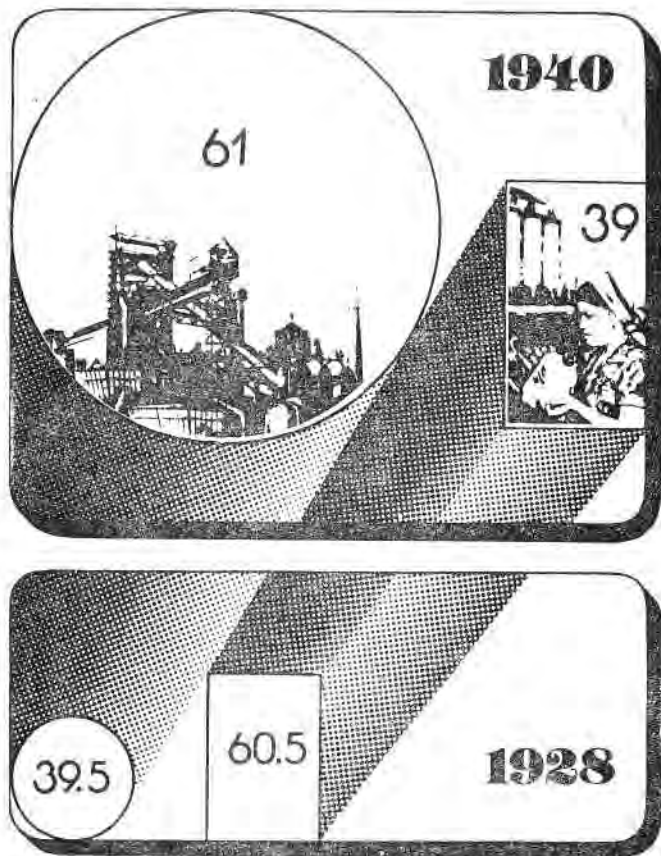
Table 4

**Main Indicators  
of the Soviet Union's Economic  
Growth in 1928—1940 (with 1928 as 1)**

	1940
National income	5.1
Industrial production, total	6.5
in Group "A"	10
in Group "B"	4.2
Gross agricultural produce	1.3
Capital investments	6.7
Productivity	
in industry	3.1
in agriculture	1.7
Retail trade turnover	2.3

While investing heavily for economic development purposes (in 1940 6.7 times more than in 1928), we did not lose sight of the vital needs of the population: in 1940 twice as many consumer goods were purchased as in 1928.

In the same period a veritable cultural revolu-



**Diagram 1**

Changes in the Structure of the Soviet Industry Between 1928 and 1940. The Share of the Groups Is Expressed in Per Cent of the Total

tion took place in the country, virtually wiping out illiteracy. Between the 1926 and 1939 censuses the number of illiterate persons per 100 dropped from 43 to 10.

### War Wounds

As we have noted, during the years of the war against Nazi Germany (1941-1945) the economic life of the country was guided by operative plans.

The economic damage wrought by the war was enormous. On the territory they occupied, the Nazi invaders and their satellites totally or partially destroyed or burned 1,710 towns and more than 70,000 villages. They wrecked 31,850 industrial enterprises, 65,000 kilometres of railway track and 4,100 railway stations, devastated and plundered 99,876 collective and state farms, rendered 25 million people homeless and drove off 17 million cattle and 7 million horses. Twenty million Soviet people perished in the war, which was the heaviest and most irreparable loss of all. In the districts ravaged by the invaders peasants sometimes harnessed themselves into ploughs, and a large part of the industrial work force consisted of adolescents, old people and invalids. The revitalization of the economy was the principal goal of the 4th five-year plan for 1946-1950.

### Peacetime Heroism

Between 1951 and 1965 the Soviet economy developed in accordance with the 5th, 6th and 7th five-year plans.

In 1957, in search of more effective ways of managing the rapidly developing economy, the Economic Councils, the state bodies of *territorial* management of the industry and construction which had justified themselves in the first years of Soviet power, were restored. But with time, the shortcomings of this system became apparent. There were, for example, difficulties in centralizing the management of branches of the economy and in finding comprehensive solutions to scientific and technical problems of industrial development. In September 1965 a plenary meeting of the CPSU Central Committee recommended bringing economic management, planning and stimulation into conformity with the increased level of development of the country's productive forces. The Economic Councils were abolished and union-republican and all-union industrial ministries were formed. This economic reform will be dealt with later on.

The period 1951-1965 saw new successes in economic, scientific and cultural development and in raising the people's wellbeing. Utilization of atomic energy for peaceful purposes began. A Soviet citizen, Yuri Gagarin, performed the first manned space flight. Huge electric power stations and industrial centres were built, and virgin lands were put to the plough in Siberia and Kazakhstan.

Everything that was accomplished during those five-year periods hardly needs to be enumerated here. The point that has to be made is that, just as during the establishment of industrial potential, the Soviet system of planned management continued to demonstrate its advantages in conditions of a highly-developed modern economy.

\* \* \*

During the postwar period the road of socialism was taken by a whole group of countries in Europe and Asia, and then in America (Cuba). Drawing on and creatively developing Soviet experience (blind imitation of foreign experience has never done any good), these countries made confident steps in planning their economies. Before long they, too, went over to planning for five-year periods and began to coordinate their plans, on a voluntary basis, with one another, using for this purpose their international economic organization, the Council for Mutual Economic Assistance, which was set up in 1949.

Soviet experience in national economic planning began to be studied also by non-socialist countries, which were changing their attitude of ill-will and disbelief.

#### **From Quantity to Quality**

By the mid-sixties profound qualitative changes had become apparent in the Soviet economy. They can be divided, somewhat conditionally, into three groups.

First, as a result of high growth rates and a manifold increase in the scale of production, considerable quantitative changes took place in the economy itself, which no longer rested on industry inherited from capitalism, but on its own, socialist basis. As usual, quantitative changes eventually led to qualitative ones. The need arose to adjust the orientation of economic growth, to make cor-

rections in long-term economic development programmes.

Secondly, the scientific and technological revolution necessitated major changes in the approach to economic growth problems and a reorganization of the management system with a view to making maximum use of the achievements of this revolution in the interests of a society of advanced socialism.

Thirdly, a number of new social tasks arose in connection with the appreciable rise in the standard of living of the population, and the greatly enhanced production potential, with the resulting growth and diversification of the people's requirements. This is natural, for the better people live, the broader and more varied their needs are. The socialist state and its planning and management bodies had to modify the system and methods of running the national economy in keeping with these important changes. This work started in the middle of the 1960s and extended to all elements of the system: planning, the structure of management, and economic levers and stimuli. They will be described in more detail in subsequent chapters.

Here we shall examine only those changes which affected the content and orientation of five-year plans. They found reflection in the 8th (1966-1970) and 9th (1971-1975) plans and a concentrated expression in the current 10th five-year plan (1976-1980). Since these three plans are united by a single concept and the last of them reflects most vividly these profound changes, we shall dwell on the specific features of the 10th plan.

It may be said to have two principal features.

### Growth of Wellbeing

The first distinguishing feature of the plan is its consistent orientation of economic growth towards the solution of social tasks, towards further improvement of the material and cultural standards of the people. This, we repeat, has always been our aim. But plans must be made commensurate with available possibilities. This is not only the ABC of life, but a real basis for planning. The country's present economic potential, the powerful productive forces, the increased maturity of social relations—in other words, everything that characterizes our society as that of developed, mature socialism—not only makes it possible but also imperative to subordinate production more than ever before to the interests of man. As the USSR Constitution says, with the building of a developed socialist society "the creative forces of the new system and the advantages of the socialist way of life are becoming increasingly evident, and the working people are more and more widely enjoying the fruits of their great revolutionary gains".

The traditional name of the five-year plans has been changed in accordance with the new Constitution. Formerly they were called plans for the development of the national economy. Now they are called plans for economic and social development. But, of course, it is not the change in the name that matters. The very essence of the plans has changed; much greater emphasis is laid on their social aspect. They reflect ever more fully the varied working and living conditions of the population, the level of incomes, and problems pertaining to the



development of the health protection and education systems and of culture. The social programme has become the most important component of the five-year plan.

The plan for 1976-1980 sets concrete assignments in further raising the material and cultural standards of the people. For example, real incomes per head of the population are to go up by 21 per cent. I repeat, *real* and not merely cash incomes. Their reality is ensured by the development of production, the service industries and trade and the stability of retail prices. The possibility of maintaining consumer goods prices at the same level for a long period of time is one of the important advantages of a planned economy.

Table 5

**State Retail Prices**  
(as per cent of 1970 averages)

	1975	1977
All commodities	99.7	100
Foodstuffs	100.9	100.9
Non-foodstuffs	98	99

It should be added that many important requirements of the population of the Soviet Union are satisfied free of charge, at the expense of society. Education at all levels and all medical assistance is free, and the state also foots a large part of the bill for the maintenance of children of pre-school age. The means to cover these expenses are taken out of the so-called *social consumption funds*. These funds are also used to pay old-age pensions, stu-

dent grants and allowances to the mothers of large families. In 1978, the payments and benefits from the social consumption funds amounted to the colossal sum of 105,500 million roubles, or 402 roubles per head of the population, which is 2.5 times the average monthly cash earnings of factory and office workers.

An important part of the social programme is improvement of housing conditions. Between 1971 and 1975 alone, more than 11 million new flats and individual houses with a total floor space of 544 million square metres were built. This meant new or better housing for 56 million people, the overwhelming majority of whom received it free of charge.<sup>1</sup> New houses totalling 550 million square metres are to be built in 1976-1980, to improve the housing conditions of more than 50 million people. In other words, ten million Soviet citizens have housewarming parties every year. As for rent, it has remained unchanged for 50 years now and, together with utility charges, does not claim more than three per cent of the income of a worker's family.

#### Efficiency and Quality

Another salient feature of the 10th plan is that the economy of the country is consistently oriented towards raising the efficiency of production and towards improving the quality of work in all branches of the national economy. This is necessitated by the new conditions of economic development.

<sup>1</sup> Housing construction is also conducted by house-building cooperatives. The plots of land for cooperative houses are provided by the state free of charge.

The decisive part in ensuring economic growth belongs today to scientific and technical progress, and to a prompt introduction of its achievements in the national economy.

The raising of productivity accounts in large measure for the growth of the national income and output in the principal sectors of the economy. In the current five-year period the productivity of social labour in the national economy is to be raised by 25 per cent, which is to contribute up to nine-tenths of the increment in the national income.

As distinct from the past, when a considerable part of the increase in the national wealth was attained through the construction of new enterprises, i.e., by means of extensive development of the economy, today the stress is on productivity in existing enterprises. The growing role of productivity is clear from Table 6.

**Table 6**

**Share of the Increment in Industrial Output  
Obtained from Higher Productivity  
(per cent of the total)**

1961—1965	62
1966—1970	73
1971—1975	84
1976—1980	90

**A Five-Year Plan as  
a Single Whole**

A state five-year plan constitutes a single whole. It gives a general outline of the main tasks and proportions of economic growth, sets out a social programme, and envisages measures for hastening

scientific and technical progress. Its main sections set assignments for the development of industry, agriculture, building, transport, and branches of the non-productive sphere. These assignments are distributed among the appropriate ministries, the executors of the plan, and handed down by them to enterprises and their amalgamations.

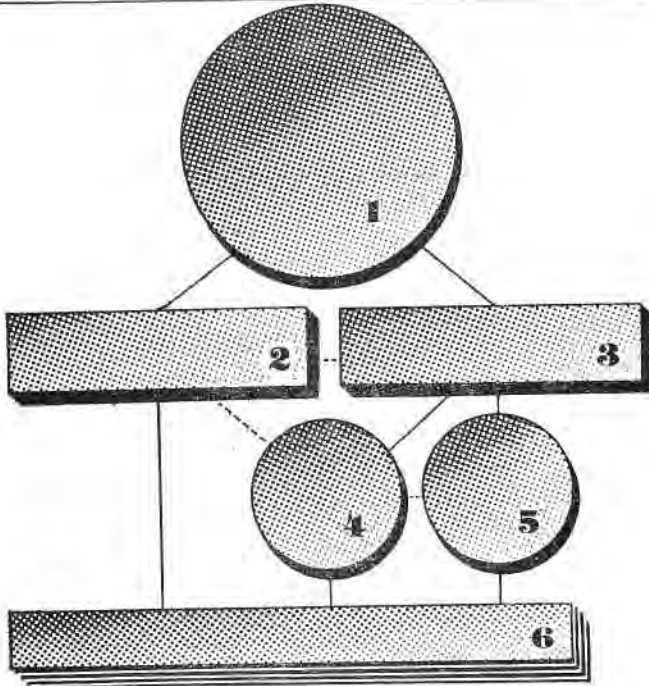
Parallel to this, assignments are set for the comprehensive economic development of the Union Republics and large economic regions and areas. There is a special section in the plan which contains provisions for raising the standard of living of the population and other social targets. Measures for promoting external economic ties are also envisaged (see chart on next page).

\* \* \*

The scope of the book permits but a general description of the most important methods of planning, which have been continually improved since the introduction of national economic planning in the USSR, namely the balance, normative and task-oriented programme methods.

**The Balance Method  
of Planning**

The successful development of the national economy and its efficiency depend to a considerable extent on the proportionate development of its branches. By proportionality we understand the correspondence between the volume and structure of production and of requirements. Absence of this correspondence gives rise to disproportions, and to



**Chart 1**  
**General Schematic Chart of a Five-Year Plan**

1. State five-year plan for economic and social development
2. Plans for branches of the economy (plans of USSR ministries and departments)
3. Plans for the comprehensive development of Union Republics
4. Plans for the development of branches of economy of Union Republics
5. Plans for the development of the Autonomous Republics, regions, cities and districts
6. Plans of enterprises, institutions and organizations

over- or underproduction of goods. An economic crisis is a vivid manifestation of disproportions.

National economic planning makes for proportionate development of the economy ruling out crises and inflation. How is this achieved? From the viewpoint of the method of planning, proportionality of the national economy is ensured on the basis of the balance method. As we have noted, it consists in maintaining harmony between production and requirements. It is applied through the drawing up of balances-plan documents taking stock of the volume of requirements in some or other goods and the resources for meeting these requirements.

To take an example. During the drafting of a five-year plan the balance of, let us say, metal (rolled steel) is drawn up, determining the metal requirements of the engineering industry, building and transport, taking into account export demands, etc. The overall requirement in rolled steel is fixed, let us say, at 100 million tons. The actual rolled stock production is 90 million tons. This means that to meet the demand fully, new plants with an aggregate capacity of 10 million tons of rolled steel are to be built in the course of the planned five-year period. The other way is to import the required amount.

In the conditions of the growing international division of labour and developing socialist economic integration of the CMEA countries, export-import deliveries constitute an important element of drafting balances, in the course of which account is taken of the material resources brought forward and the reserves necessary for the uninterrupted development of production and the rapid satisfaction of

new requirements. Here is a balance sheet for rolled steel (million tons).

**Table 7**

Production (resources)		Requirements	
1. Brought forward	2.5	1. Requirements of engineering industry	60
2. Production	98	construction	20
3. Import	2	transport	5
		other branches	5
<b>Total</b>	<b>102.5</b>	2. Export	7.5
		3. Reserves replenishment	2.5
		<b>Total</b>	<b>100</b>
		Brought forward	2.5
<b>Balance</b>	<b>102.5</b>	<b>Balance</b>	<b>102.5</b>

Several types of balances are drawn up. First come material balances—those for metal, fuel, grain, etc. There are also balances for manpower and financial resources, composite national economic balances such as the national income balance, the balance for the cash incomes and expenditures of the population, and, finally, the overall national economic balance.

Given the requisite information and skill, drawing up a balance is not difficult, in principle. The important thing is that it should not merely be an enumeration of figures, but a planning document and an instrument in real management. It can become such an instrument only when planning is conducted on a nationwide scale. In the example

given above, construction of new iron and steel mills was required to ensure a proportionate development of the national economy. If the socialist state finds this requirement socially justified, it allocates the necessary resources, having been entrusted by the people with the task of disposing of all the social wealth of the country, and therefore being able, and called upon, to solve tasks connected with the satisfaction of social requirements.

Hence, for the balances and other plan calculations not simply to remain on paper, real economic powers are needed. Such powers exist where there is one master, one owner of all the basic means of production—the socialist state.

#### **The Normative Method**

Closely connected with the balance method of planning, the normative method has the advantage in that it makes it possible not only to meet certain requirements, but to do so at minimum cost.

Again an example by way of illustration. In the conditional balance for rolled steel given in Table 7 the requirements of the engineering industry are estimated at 60 million tons. Why precisely this figure? This depends on the rates of metal expenditure for the manufacture of one tractor, machine tool, combine harvester, car, and so on. If, for instance, the rate of expenditure of steel per tractor is 800 kilograms, a tractor factory whose annual output is 20,000 tractors will require 16,000 tons of rolled steel.

The rate of expenditure can be lowered by improving the design, using more advanced produc-

tion methods, reducing waste, improving the quality of metal. A whole complex of factors is involved here. Most of them, too, are objects of planned management (the plan sets targets for technical progress, reconstruction of production, improvement of the quality of output, and so on). Consequently, through the plan, the state can induce a lowering of the rates of metal consumption and a raising of production efficiency in other ways.

This work has great social significance. A lowering of the rates of expenditure of rolled metal (this is one of the objectives of the normative method) will make it possible to meet the requirements in it with a smaller amount of metal, thereby obviating or reducing the need for expanding its production. Figuratively speaking, a whole iron and steel plant can thus be "saved".

And that is what actually takes place in real life. For example, in the period 1976-1980, improvement of manufacturing techniques, use of more economical materials and manufactures, and other measures are to bring about a major reduction in the rates of expenditure of material resources, which includes the saving of 9 million tons of rolled steel.

The means thus saved and released can be used for improving the life of the people: for the construction of more hospitals, houses and sports facilities, for greater production of consumer goods, and for other social purposes.

The use of the normative method in planning is based on keeping careful account of scientific and technical achievements and on the study of progressive experience at home and abroad.

### **The Task-Oriented Programme Method**

This method occupies an important place in the system of planning, especially at present. Its essence consists in the following. Drawing on research findings and the results of extensive discussion, the socialist state determines the principal tasks of economic and social development. These aims have already been described in the second chapter. They may vary in magnitude, importance and in the time-limits set for their attainment.

Organizing practical work for the accomplishment of economic and social development tasks is as important as their correct choice and definition. After the aims have been determined, this work assumes decisive importance. The attainment of aims is ensured through the system of planned management of the national economy. It is for this purpose that the task-oriented programme method is used.

For each of the set tasks a comprehensive programme is drawn up which covers the totality of the resources, measures and conditions necessary for its realization (hence the name of the method). The comprehensive programme comprises a clear definition of the task, the time-limits for its realization (when necessary, also intermediate stages), the required resources (manpower, capital investment, material means, etc.), and the development of related industries or lines of production. For example, the industrialization of a large region or the opening up of a mineral deposit presupposes not only the construction of production facilities, but also the comprehensive solution of problems involved in

the recruitment of manpower, development of transport, housing construction, the establishment of the necessary social infrastructure, and so on. All these problems are important and interconnected and have to be solved in a coordinated way, which is done on the basis of comprehensive programmes.

The Soviet Union has rich experience in drawing up and carrying out task-oriented programmes differing in character—scientific, technical, social, and territorial-production. The biggest of them include the construction of the Baikal-Amur Railway and the development of the natural resources of its zone, the development of the oil and gas industry of West Siberia, the development of the agriculture of the Non-Black Soil Zone of the Russian Federation, and the establishment of the atomic power engineering industry. The programme for introducing universal secondary education for young people has already been completed. Among the other social programmes under way are the elimination of the housing shortage, the satisfaction of the population's requirements in foodstuffs in keeping with scientific standards, and the gradual reduction and eventual elimination of arduous, manual and low-skilled jobs.

Comprehensive programmes form part of five-year plans or are included in them as stages, which accentuates the task orientation of the plans themselves.

#### IV.

##### HOW MANAGEMENT OF THE ECONOMY IS ORGANIZED

Planning is the pivot of economic management under socialism, but it is not the be all and end all. To ensure the smooth, integrated running of a giant economic complex, coordinating the work of millions of people, a many-tiered and ramified managerial system is needed. A large modern enterprise cannot operate normally without rate-setting, planning, financial and other departments, a dispatching service, and so on. Such services are equally necessary for the national economy as a whole.

The present management structure of the national economy is the result of long evolution and a continual search for the most rational and effective procedures. Its basic principles are laid down in the Constitution of the USSR:

*“Article 16.* The economy of the USSR is an integral economic complex comprising all the elements of social production, distribution, and exchange on its territory.

*“The economy is managed on the basis of state plans for economic and social development, with due account of the sectoral and territorial principles, and by combining centralized direction with the managerial independence and initiative of individual and amalgamated enterprises and other organizations, for which active use is made of management accounting, profit, cost, and other economic levers and incentives.”*

We shall concentrate on two points: the combining of centralized direction with managerial independence and initiative, and the coordination of the sectoral and territorial principles. As for the use of economic levers and incentives, we shall take up this subject in the next chapter.

#### Centralism and Initiative

An "either... or" approach is inapplicable to complex economic phenomena. The idea that centralism understood in a genuinely democratic sense does not run counter to independence and initiative was thoroughly substantiated by Lenin who formulated it in the principle of democratic centralism. It is important to realize that Lenin *does not speak of centralism "in general"*, let alone bureaucratic centralism. He has in mind *centralism which expresses the unified will of the working people* and is therefore genuinely *democratic* in its nature and social content. "...Centralism, understood in a truly democratic sense," Lenin wrote at the time of the emergence of the Soviet system of management, "presupposes the possibility, created for the first time in history, of a full and unhampered development not only of specific local features, but also of local inventiveness, local initiative, of diverse ways, methods and means of progress to the common goal."<sup>1</sup>

It is on this understanding of democratic centralism that the Soviet economic management system rests. We work on the principle that centralism and

independence are not antithetical. The relationship between them cannot be presented as a tug-of-war for supremacy. Accentuation of centralized planned economic management can—and must—be accompanied by provision of great scope for the initiative and autonomy of individual economic units. This is the point of view that underlies the economic reform initiated in 1965 to improve the direction of the country's economy.

Let us take a closer look at the problem. Intensifying centralized planned economic management is expressed, not in an increase in the number of decisions taken by the supreme economic bodies of the country, but in the way their efforts are directed to major strategies and in the more thoroughgoing scientific validation of the decisions that are adopted.

To go to extremes here and reach for more than you can grasp is highly undesirable. Attempts to concentrate all decision-making in the higher bodies inevitably put minor issues on the same level as major ones and thus impair the quality of the strategic decisions taken. This also results in the petty tutelage of the lower units of the economic system by the higher ones, stifles local initiative and weakens the executors' sense of responsibility. As a consequence, far from being strengthened, the principle of centralism actually suffers.

Things are different when the central leadership tackles a relatively limited range of questions which are nevertheless of decisive importance for the development of the national economy as a whole. This approach also extends the initiative and freedom of action of the lower economic units.

<sup>1</sup> V. I. Lenin, *Collected Works*, Vol. 27, p. 208.

The distribution of responsibility in the various echelons of economic management is determined by many factors. A great deal depends here on specific historical conditions, and therefore this distribution will not be the same at different stages. However, the general principle, prompted by experience and substantiated by the theory of planned management, consists in the following. Each link of economic management must decide those questions on which it has the fullest and most reliable information and which it is thus able to decide in the most competent way.

#### **Management Agencies of the Sovlet Economy**

The most important questions, including the approval of state plans for economic and social development, the state budget, and the reports on their implementation, are decided, in keeping with the Constitution, by the Supreme Soviet of the USSR, being the highest legislative body of state authority.

A wide range of questions falls under the jurisdiction of the USSR Council of Ministers, the highest executive and administrative body. Specifically, the Council of Ministers

- drafts long-term and current state plans for economic and social development and the state budget and takes measures to execute them;

- drafts and implements measures to raise the material and cultural standards of the people, to develop science and technology, to ensure the rational utilization and conservation of the natural

resources, to consolidate the monetary and credit systems, to pursue uniform prices, wages and social security policies, and to organize state insurance and a uniform system of accounting and statistics;

- organizes the management of industrial, construction, and agricultural enterprises and amalgamations, transport and communications enterprises, banks, and other organizations and institutions of all-Union subordination.

A number of inter-sectoral agencies are responsible for the functional, day-to-day management of the national economy. Central among them is the State Planning Committee of the USSR (Gosplan). The functions of the other inter-sectoral bodies can be seen from their names: the State Committee for Science and Technology, the State Committee for Labour and Social Affairs, the State Committee for Material and Technical Supply, the Ministry of Finance, the State Bank, and the Construction Bank.

The various branches of industry, agriculture, construction and transport are managed by the appropriate sectoral ministries.

The search for the most rational and efficient system of management for the national economy has been in progress for many years. In 1965 transition began to the currently existing *sectoral system of management* of the economy. This system makes it possible to pursue a uniform scientific and technical policy and to orientate production to meeting society's requirements in goods and services. It accords most fully with the process of the social division of labour leading to the formation of independent branches of production.



Each branch of the economy is managed by a ministry whose head, the minister, is a member of the government appointed by the Supreme Soviet. The ministry is accountable to the Communist Party, the state and the people for the branch of the economy in its charge, for the quality of its output and for the fullest possible satisfaction of the country's requirements in the products of that branch.

#### **The Territorial Principle of Management**

In the USSR this principle plays a role of immense importance, and not only because of the size of the country, which occupies one-sixth of the land surface of the earth.

The USSR is a multinational state incorporating 15 equal Union Republics, which formed the Union on a voluntary basis, and many Autonomous Republics and regions. The economy of each of these entities, while forming a part of the unified national economic complex, has its own specific features and also constitutes an economic unit. Hence the need for comprehensive economic management in each republic.

In the practice of planned management the sectoral and territorial principles complement each other. This is achieved by a number of different methods. In particular, the single state plan for the economic and social development of the country has two aspects, the sectoral and the territorial. Each republic forms its own managerial agencies (republican Gosplan, Ministry of Finance, etc.).

The republic's plan for economic and social development is drafted by its Council of Ministers taking into account not only the overall requirements of the country, but also the republic's specific national features and established traditions. It is then approved by the republican Supreme Soviet.

The requirements and resources of the Union Republics are also reflected in the structure of sectoral management, for instance, in the establishment of Union-republican ministries such as the ministries of light industry, of the food industry, of agriculture, trade, and a number of others. Alongside the USSR Ministry of Light Industry, which is in charge of this industry on a country-wide scale, there are republican ministries of light industry, subordinated both to the USSR Ministry of Light Industry and to the Councils of Ministers of the republics (so-called double subordination). In addition, there are ministries in the republics which are subordinated only to their republican Council of Ministers, such as the ministries of motor and river transport, local industry, and others.

The structure of national economic management in the Soviet Union is shown in schematic form on page 64.

Recent years have seen important changes in the structure of national economic management, dictated in the final analysis by the already mentioned qualitative changes in the economy itself, by the growing degree of socialization of production, and by the ever greater integration of science and pro-

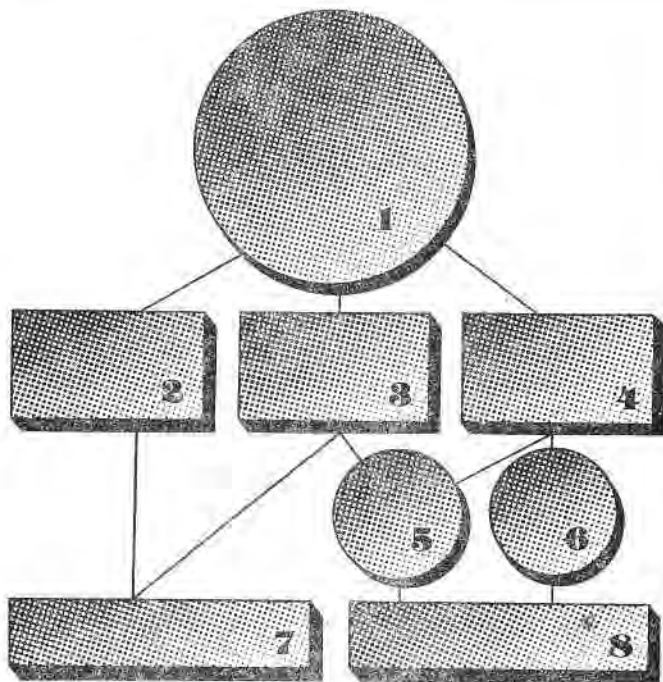


Chart 2

1. USSR Council of Ministers
2. All-Union Ministries and Departments
3. Union-Republican Ministries and Departments
4. Councils of Ministers of Union Republics
5. Union-Republican Ministries and Departments of Union Republics
6. Republican Ministries and Departments
7. Amalgamations and Enterprises Within Union Jurisdiction
8. Amalgamations and Enterprises Within Republican Jurisdiction

duction. There arose a number of problems clamouring for solution. In particular, individual enterprises, especially small ones but also those of medium size, proved unable to measure up to the demands of the changed conditions, actively to utilize the achievements of the scientific and technological revolution, the advantages of specialization in production, and the new rights with which they had been vested.

It became necessary to enlarge the primary economic unit, to bring science as close as possible to production, at the same time bringing management, too, closer to production, and removing the numerous intermediate and often superfluous administrative and economic links between ministries and enterprises.

In 1973, in keeping with decisions of the CPSU Central Committee and the USSR Council of Ministers, the reorganization began and has continued to this day, in a planned, systematic way, in keeping with the master plan which each ministry works out for its industry and which is approved by the government.

#### Problems of Reorganization

New questions arise in connection with this reorganization. What should the primary economic unit look like? How should sectoral management be altered?

For a long time individual enterprises—factories, mills, etc.—were the primary economic units, and this was historically justified and necessary. Now

that they have been found unable to carry out the new tasks which confront them, they are being replaced, as primary economic units, by *production amalgamations*, each consisting, as a rule, of several previously independent enterprises and research and development organizations.

Sometimes amalgamation takes place on the basis of a research institute, which becomes the head organization of a *research and production amalgamation*.

#### A New Type of Enterprise

Amalgamation should not be understood as the mechanical joining together, under a single nameplate, of different enterprises having nothing in common with one another. That would be senseless from the economic point of view. The new primary economic units consist of enterprises linked by common production processes or tasks or by a common sequence of processes. Within an amalgamation production is specialized among the member units and certain functions are centralized (preparatory operations, cutting of materials, supply and marketing departments, etc.). Special attention is given to establishing firm links between the production and research divisions of the amalgamation.

In 1977 nearly 3,700 production and research and production amalgamations existed in Soviet industry, accounting for more than 44 per cent of marketed industrial output. The dynamics of the growth of the number of production and research and production amalgamations in industry and of

their share in output can be seen from the table below.

**Table 8**

Year	Number of amalgamations	Amalgamations' share in marketed output (per cent)
1970	608	6.7
1975	2,314	24.4
1977	3,670	44.3

Depending on the specific nature of an industry, location of enterprises, and other factors, amalgamations vary greatly in size. There are large amalgamations in the motor industry, such as the internationally known Soviet firms ZIL (based on the Likhachov Motor Works in Moscow) and AvtoVAZ in the town of Togliatti, which manufactures Lada cars. Equally large amalgamations have been set up in the metal-manufacturing and mining industries: the Magnitogorsk iron and steel combine and the Norilsk mining and metal-manufacturing combine. Much smaller amalgamations exist in the light and the food industries.

For all the distinctions between them, production amalgamations are a typical unit of Soviet industry today, and it is with them that the future lies.

New production amalgamations are not created hastily. Every proposal is carefully weighed by competent agencies, and only then decided upon. This approach characterizes the present style of running the Soviet economy. On the whole the work of establishing production amalgamations in industry is to be completed by the end of 1980.

### A New Pattern of Management

The organization of production amalgamations has led to substantial changes in the system of sectoral management, making it possible to reduce the number of managerial links and bring administrative bodies closer to production.

Today the highest managerial body of an industry, its headquarters, is the ministry headed by the minister. In addition, there is a collective managerial body, the collegium of the ministry, which at its regular sittings examines the main problems in the development of the industry, discusses questions pertaining to personnel selection and distribution, and hears the reports of heads of ministry departments, amalgamations, and enterprises. The ministry has departments and divisions concerned with planning, scientific and technical progress, finances, wages, and so on.

Attached to the ministries are scientific and technical councils. These are public bodies consisting of prominent scientists and other experts, and their role in solving scientific and technical development problems is rising steadily. They thus serve as an effective means of securing the participation of scientists and the public at large in managing production.

Most industries have a two- or three-tier managerial system. In the former instance production amalgamations (or individual large enterprises) are subordinated directly to the ministry, without any intermediate links.

However, this system cannot be applied in all industries (because of their specific nature, the large number of enterprises concerned, their territorial disunity, etc.). Hence the three-tier system with an intermediate link—the all-Union or republican *industrial amalgamation*—to which production amalgamations are subordinated. Industrial amalgamations, as distinct from production amalgamations which form the primary link of the national economic system, were established comparatively recently. Formerly the job of running groups of enterprises was done by production departments of the ministries, which were purely administrative bodies and could not effectively manage the enterprises subordinated to them. The industrial amalgamations, which do not form a part of the ministry itself, are large production-economic complexes operating on the basis of *cost accounting*.

Cost accounting will be dealt with in the next chapter. Here we shall only note that it is based on the principle of self-financing, i.e., of covering all expenses out of income. It is a highly effective method of management combining incentive to better performance with material responsibility. The old-time ministerial departments covered their expenses from the state budget.

Thus, on the one hand, the industrial amalgamations have much greater genuine managerial freedom (in the allocation of resources, in promoting technical innovation and improving the quality of output) and on the other, they are materially responsible for the results of their economic activity.

One further point must be emphasized. The delegation of a number of the functions of operative management to industrial amalgamations *relieves the ministries of the need to make decisions on a*

*host of specific, relatively secondary questions*, thereby enabling them to concentrate on the long-term, strategic problems in the development of the industry, that is, to do exactly what ministries are supposed to do.

Thus production amalgamations have become the principal units of the national economic system. They are fairly large in size, having from several thousand to tens of thousands of employees. The largest employ more than 100,000 workers. It is not an easy matter to manage such an economic complex.

#### **Management of a Production Amalgamation**

Three main trends characterizing the improvement of management within the framework of production amalgamations can be singled out.

The first is the improvement of *management structure*. This involves the elimination of parallel managerial links that duplicate each other, and the centralization of certain functions at the head enterprises of an amalgamation. The general aim in this work is to orient management as much as possible towards raising the efficiency of production and attaining high end results.

The second trend is the active *use of modern technology in management*. The majority of large amalgamations have introduced or are introducing automated control systems using computers. These systems raise considerably the operational efficien-

cy of management and permit fuller utilization of modern technology and the improvement of production techniques.

However, while facilitating managerial work and making it more efficient, machines can never obviate the need for human participation. Management has been, and remains, a variety of creative activity in which a very important part is played by the human intellect and will. Hence the parallel tendency for the *growth of man's role in controlling economic processes*, manifested in the continued rise in the professional competence of managers and the democratization of management—processes that complement each other in practice.

The raising of the professional level is necessitated by the growing complexity of management. Running a modern enterprise, let alone an industry, calls for specialized knowledge, experience and skill. An elaborate system of training, refresher courses and promotion of managerial personnel has been established in the USSR. The Academy of the National Economy trains top executives up to ministers. Similar functions are performed by numerous broadly specialized and sectoral institutes.

Enumeration of everything that is being done in this sphere would take up too much space. It is important to realize that the process of professionalization of management does not lead to the formation of a special élite social stratum of managers standing above the people. This is ruled out by both the very system of socialism and by the constantly deepening process of democratization of management.

### **Worker Participation in Management**

The participation of the masses of the working people in running the state is a cornerstone of the Soviet political and economic system. This participation is to be observed at all levels of the management of the economic and social processes in the country, being particularly widespread and fixed in the primary units of the economic system, that is, in enterprises and amalgamations. The role and functions of work collectives in management are given legal enforcement in the Constitution:

"Article 8. Work collectives take part in discussing and deciding state and public affairs in planning production and social development, in training and placing personnel, and in discussing and deciding matters pertaining to the management of enterprises and institutions, the improvement of working and living conditions, and the use of funds allocated both for developing production and for social and cultural purposes and financial incentives."

By taking part in production management Soviet citizens exercise one of the greatest human rights—the right to dispose of social wealth, to be the masters of their country. And it cannot be otherwise under socialism, for the means of production are public property, i.e., belong to each and all.

### **Forms of Participation in Management**

The forms of working people's participation in management vary widely. The principal vehicles

are mass public organizations—the *trade unions*, the *Young Communist League*, the *inventors' and innovators' societies*, and others.

Important management functions are also performed by such elective bodies of working people as *people's control groups* and posts. All newspapers, including the country's leading daily, *Pravda*, regularly print material prepared by people's controllers. Each enterprise and amalgamation and their large divisions have *standing production conferences*, at which all the major problems of the economic life of the respective work collective are dealt with.

In agriculture, collective farms have their own democratic forms of management. A collective farm is a cooperative organization run by a chairman and a board elected by a general meeting of the membership, the supreme body which discusses and adopts the farm's plans and decides all other important questions.

Collective farms themselves plan their work, which they conduct on land given them by the state for free use in perpetuity. When drawing up plans they are guided by the state plan for the purchase of agricultural produce and by the need for rational utilization of farmland.

### **Socialist Emulation**

Socialist emulation is one of the most important forms of the mass participation of working people in management. Its main features are competition, and rivalry in work and at the same time mutual assistance. Individual workers, teams, work collec-

tives of enterprises and even whole regions and republics participate in emulation, each trying to outperform its opposite number, to work better, more productively, more efficiently, more successfully, and to be the victor in this loftiest of contests.

What motivates the participants in socialist emulation? There is the natural desire to prove one's worth, to find a way of displaying one's capabilities and discharging one's energy most fruitfully. There is also the urge to do something outstanding, heroic. But there is more to it than that.

A spirit of competition is inherent in man. Since childhood we compete in strength and adroitness, in intelligence and talent. There is nothing reprehensible in a person's striving for primacy if it can serve the interests of society. But it can also do harm to society. This depends first and foremost on how the given society is ordered.

Socialism has awakened these mighty forces, because in a society freed from exploitation labour became a matter of honour, the main factor determining a man's place among people. His labour contribution to the common cause, the so-called measure of labour, determines the measure of respect for him, and the measure of his self-respect. For under socialism everything created through labour belongs to the men of labour themselves, and only to them. Hence the magnanimous striving to share the "secrets" of one's success and skill with others. For all are working for one common cause. Thus mutual assistance becomes inseparable from rivalry in work.

At the present time, the primary objectives of emulation are the acceleration of scientific and technical progress, raising the efficiency of production and improving the quality of output. In achieving success in this, working people accomplish the same task which the system of management does. Socialist emulation and management are inseparable from each other: emulation contributes to the fulfilment of production plans.

One more thing. The leaders in emulation are blazing, as it were, a trail to the future. As they say in our country, "The record set by today's innovator is tomorrow's standard for all." The progressive methods demonstrated by winners in emulation help improve plan assignments and quotas, making the best achievements available to everyone. So in this sense as well socialist emulation is an element of the system of planned economic management.

#### **Economic Knowledge for All**

To enable the rank and file in industry and agriculture to take part in management competently and hence fruitfully, large-scale instruction in the fundamentals of economics has been conducted for many years in the USSR. As many as 42 million people received such training in 1971-1975.

They were acquainted with the aims and content of the economic policy of the Communist Party and the government, the laws and mechanism of planned management, the processes of price formation and income distribution, and the means of raising productivity and improving the quality of output.

In addition, there is a well-developed system for disseminating information about the development of the national economy. All this enables Soviet working people to participate actively in managing social production, correctly appraise economic phenomena and processes, and submit useful proposals for improving the performance of the team, the enterprise, and the state as a whole.

\* \* \*

This, in general outline, is the system of management of the Soviet economy, based on planning and characterized by *flexibility, constant improvement, and the active participation of the mass of the working people* in discussing problems and in decision-making.

However, the picture would be incomplete without a description of one more aspect, namely, the role played in management by economic levers and incentives. This is the subject of the next chapter.

## V.

### ECONOMIC LEVERS OF MANAGEMENT

#### To Each According to His Work

It would be incorrect to think that the absolute domination of public ownership of the means of production obviates the need to make workers materially interested in the results of their work. The principle, "From each according to his ability, to each according to his needs," will come into its own only under communism. During the first phase of communist society, that is, under socialism, material benefits are distributed according to work.

Socialist production, even though it grows from year to year, does not make it possible to implement the communist principle of distribution. Also, the consciousness of the people is not sufficiently high yet to allow this. Work has not yet become the first need and a source of creative pleasure for all those living in socialist society. There still are people who have not developed an inner urge to work to the best of their abilities for the common good, an awareness of their social duty. Besides, the level of development of the productive forces is not sufficiently high to meet fully the constantly growing requirements of people, to whom labour remains the source of the means of subsistence. Hence the need for the socialist state to take certain measures to induce people to work, to use material interest in the results of labour, to employ so-called economic levers and stimuli.



The latter are an indispensable element of the planned management system. The credit for demonstrating their need and indicating how they could be used goes to Lenin, who even in the early years of socialist construction gave theoretical grounding to the principle of personal material interest and the importance of the financial and credit mechanism in developing the socialist economy.

These scientific guidelines laid by Lenin are used in the planned economic management system to this day. The reservation must be made here that although such categories as profit, wage, price, etc., are still used in the socialist economy, their essence, their economic and social meaning have changed radically. They owe their new content to the ascendancy of public ownership which rules out unearned income, exploitation of man by man, profiteering, the drive for profit and the urge to enrich oneself at the expense of society or other people. A man's material welfare depends now on his work for the common good, on its effectiveness, and on its end results.

#### **Personal Interests and Production**

The application of one or other of the economic levers depends on what is in the interests of the people. Socialism does not underrate economic interests as inducements to human activity. In the final analysis, people are guided by their economic interests in developing production, improving technology and the organization of labour and striving to make better use of the available resources. The

important thing is what these interests are, and how they are interrelated. Here we come to the paramount importance of the cardinal changes socialism has wrought in the economic organization of society.

Public ownership removes the antagonism of class interests stemming from the fact that some classes live off the labour of others. In turning all members of society into equal working people, socialism eliminates the conflict of interests between the exploiting and the exploited. Awareness of these fundamental changes is essential to understanding the problems of real socialism.

Socialism makes harmony possible between the economic interests of society, its constituent groups, and its individual members. Under socialism all social wealth, all the fruits of labour belong to the workers themselves. But this basic commonality of interests does not signify their identity, their complete coincidence.

Differences, sometimes quite appreciable ones, do exist between the interests of society, work collectives, and individual workers. Hence the necessity for the planned management system to harmonize these interests, to make that which accords with the vital interests of socialist society as a whole beneficial to each work collective and each individual worker. In practical terms, this presupposes the use of such stimuli and incentives as will make individuals and work collectives interested in increasing productivity and the quality of output, and in using all resources economically.

These interests can be compared to a motor supplying people with energy and setting them in mo-

tion, and management and the organization of labour, with their levers and stimuli, can be compared to the wheel which steers this energy in a direction useful to society.

In preceding chapters we have spoken about the aims of management through planning. When these aims have been clearly defined and the course of the economy plotted, the levers and stimuli act as the steering wheel ensuring advance towards these goals.

A large array of economic levers is used. Some of them are designed to stimulate individual workers, others, the economic activity of enterprises and their amalgamations.

#### Pay for Work

Personal economic interests are reflected in wages and bonuses. The use of the latter is based on one of the main principles of the economic organization of socialist society—the principle of distribution according to work. The growth of the income of every member of society and hence of his standard of living directly depends on the quality and quantity of his work. It is as if the state said to him: as you work, so you will live. This is a just, humane principle. In a society where labour alone is the source of both social wealth and individual prosperity it cannot be otherwise. As it says in the Constitution:

*“Article 14.* The source of the growth of social wealth and of the wellbeing of the people, and of each individual, is the labour, free from exploitation, of Soviet people.

*“The state exercises control over the measure of labour and of consumption in accordance with the principle of socialism: ‘From each according to his ability, to each according to his work’.”*

Payment for work in accordance with its quantity and quality makes workers interested in raising their qualifications, in mastering technological achievements and advanced work methods and in observing production discipline. Being interested in such work, society makes it materially beneficial to every worker. In this way wages are used to harmonize the interests of the individual and society.

We are speaking here of society because it is society that regulates wages in the Soviet Union, determining the wages scale, rates and salaries for different categories of workers, and establishing differentials for different climatic regions, etc.

Some explanations are due here. Under modern production conditions each worker works, not as an individual craftsman, but in a system of division of labour and interaction in a work collective. Therefore the quality and efficiency of his work depend in large measure on joint efforts. How can a worker be made interested not only in the results of his own work, but also in the success of the common cause?

Different methods are used in Soviet enterprises to attain this goal. Without going into particulars, we may say that the essence of these methods consists in the following. A definite part of the pay (the bonus, as a rule) depends on the performance of the work collective as a whole. The state guarantees every worker a minimum wage (which grows steadily and at present amounts to 70 roubles per

month). Everybody understands that the better the performance of the work collective, the greater the earnings of each of its members and vice versa. This method of stimulation encourages genuine concern for the operation of the enterprise and intolerance towards shortcomings in all employees.

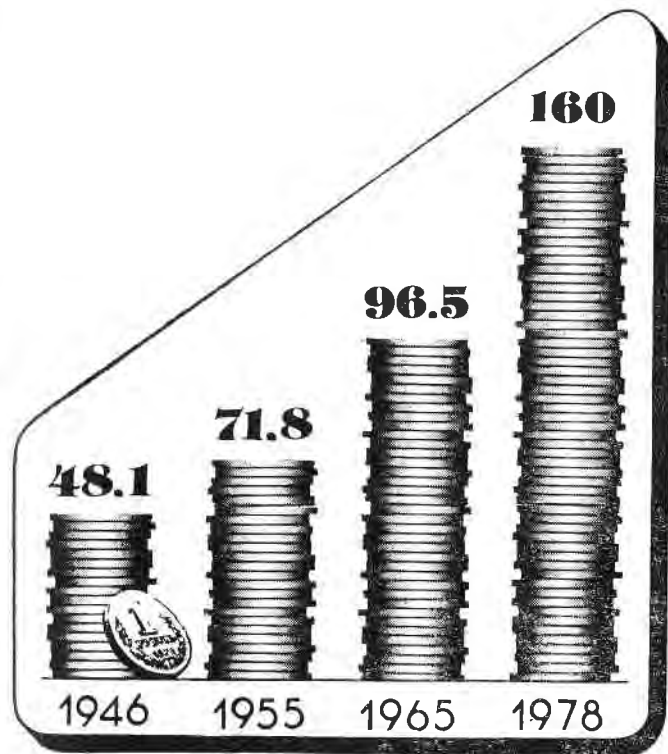
The question may arise, why is the pay of individual workers made dependent on the performance of the entire enterprise? This question would be legitimate if the individual worker merely performed one particular function. But under socialism the worker is not merely an executant. He is the master, or, more precisely, a co-master of production, vested with broad rights and powers as regards its management. Consequently, the success of the common cause depends on him as well. That is why stimulation of individual workers in accordance with the results of collective labour has become an important element in the organization of remuneration.

The rise in the effectiveness of socialist production is accompanied by a steady growth of wages. In view of the stability of state retail prices for goods and services characteristic of socialism, the growth of monetary incomes results in an improvement in the standard of living (see diagram on page 83).

It should be added that the size of the wages does not fully reflect the standard of living of Soviet people, for they also enjoy payments and benefits from the social consumption funds.<sup>1</sup> Thanks to

<sup>1</sup> State-financed funds paying for free education at all levels, free medical assistance of all kinds, pensions, sickness benefits, paid holidays, various allowances, and so on.

**Diagram 2**  
Growth of Average Wages of Factory and Office Workers (in roubles)



these funds the real average earnings in 1978 were not 160, but 219 roubles.

The growth of earnings is due to two factors. The first is systematic increases in minimum rates, improvement of the wage scale, and other policies carried out in step with the growth of the effectiveness of social production. The second is the growth of productivity and the quality of the work of individual workers. It is precisely in this instance that wages act as an economic instrument in influencing production.

Without going into the various forms and systems of remuneration of labour, let us point out once again the important role of wages in the complex of measures applied for the attainment of various management aims (increase in output, improvement of quality, growth of productivity, etc.).

#### **Labour—a Matter of Honour**

Let us now turn to the other aspect of the question: moral stimuli.

Under socialism, people strive to work efficiently not only because this means higher earnings but also because of moral motivations, such as awareness of one's duty to society, the established standards of morality and a desire to contribute to the prosperity of the country. The importance of these factors is growing steadily, and will continue to grow.

Both economic and moral stimuli are employed in the management of production, which is always a socio-economic process. Highly productive labour for the good of society wins universal esteem. The

best workers receive government decorations and other tokens of merit. Their pictures are printed in periodicals and put on public display on special boards of honour. The most distinguished of the workers, farmers, industrial executives, teachers, doctors, scientists and persons of other trades and professions are made Heroes of Socialist Labour. Nationwide publicity is given to them by the mass media. Applied together with economic incentives, these moral stimuli help accelerate social progress.

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The economic mechanisms for stimulating the activity of production enterprises are bound up with the system of *cost accounting*, a specific form of management within the socialist economy.

#### **Cost Accounting**

When setting up an enterprise the socialist state provides it with the necessary means, which make up what may be called its chartered capital. Operating in accordance with the state plan, the enterprise must cover all its expenses from sales. This is the basis of cost accounting (also referred to as economic accountability, profit and loss accounting, cost-benefit analysis, etc.)

Because of the need to operate at a profit the state makes an effective use of various economic levers. The more efficiently an enterprise or amalgamation uses the funds allocated to it and the higher its income, the greater resources it has at its disposal for the further improvement of production and the greater material incentives it offers to its em-

ployees. Poor performance means lower income for the personnel.

Material incentives are coupled with material responsibility. This is one of the principles of cost accounting. Arguing this principle, Lenin wrote: "I think that trusts and factories have been founded on a self-supporting basis precisely in order that they themselves should be responsible and, moreover, fully responsible, for their enterprises working without a deficit."<sup>1</sup>

Cost accounting, which helps harmonize the economic interests of society, the work collective and its individual members, presupposes the use of a whole system of economic devices. Specifically, use is made of such categories as price, cost, and profit.

#### How Prices Are Formed

As we have noted, in socialist society the prices of all goods and services are fixed centrally by the state and enterprises cannot raise or reduce them at will. The structure of the price of the production of an industrial enterprise is shown in Chart 3 on page 87.

As we can see, price is formed from cost (production cost) and profit. What do these economic categories mean under socialism? Let us examine them separately.

#### Cost

Cost is the monetary expression of the expenditure incurred by an enterprise in producing a prod-

<sup>1</sup> V. I. Lenin, *Collected Works*, Vol. 35, p. 546.

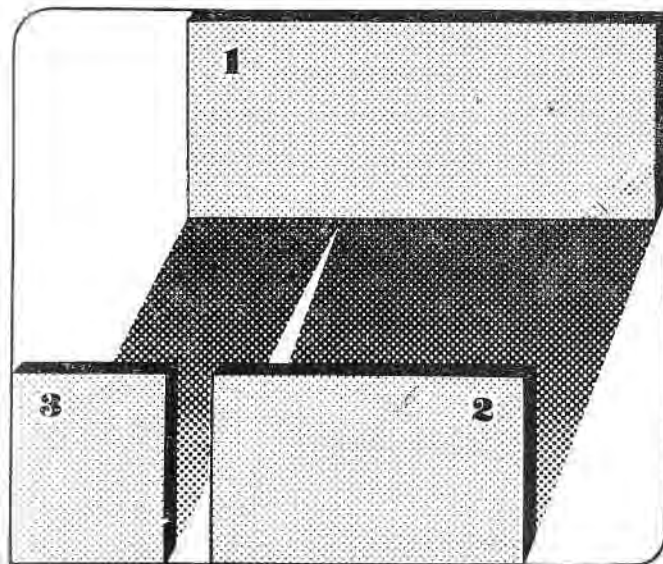


Chart 3

- 1 — price
- 2 — cost
- 3 — profit

uct—a commodity or a service. Since the cost is included in the price of the produced goods, when the goods are sold the enterprise is compensated for its expenditure and thus acquires the material means for continuing production.

Cost is determined by the value of the materials used plus expenditure on equipment, power, wages, and so on. But it also depends in large measure on the efficiency and quality of the work of the enterprise as a whole. The better the performance, the lower the cost, and vice versa. And since prices remain constant (the state sees to this), profit, and hence the economic incentive fund, i.e., the part of the income that accrues to the personnel in the form of bonuses and various other payments and benefits, will be proportional to production costs.

How can costs be lowered? Let us look at a concrete example. Table 9 shows the structure of the expenditure on industrial production in 1976 (all-Union averages, as a percentage of the total).

**Table 9**

Total cost	100
expenditure on:	
raw materials	67.5
fuel and energy	6.1
fixed capital depreciation	6.7
wages	15.0
other expenses	4.7

Obviously, production costs can be reduced primarily through the economical use of raw materials, fuel and energy, better utilization of fixed capital and higher productivity. Society is directly interested in this, for what is at issue is more effective

utilization of its resources. That is why strict cost accounting is economically profitable both to the individual work collective and to society as a whole.

What do we actually mean when we say that an enterprise is "interested", that something is "profitable" for it, and so forth?

A look at the distribution of profit will help answer this question.

### Profit

Profit as an excess of income over outlay is not the invention of socialism. It existed long before its birth and was often damned as an expression of insatiable lust for gain and ruthless exploitation. The whole point is, *how* it is obtained, and *in whose interests* it is used.

You will agree that there is a difference between the money "earned" by a dope peddler and the money a peasant, worker or artisan receives for his honest labour. It is not true that money has no smell. It does have a smell—a social one.

One more thing. Is the machine good or evil? The dawn of machine production in England saw the movement of Luddites,<sup>1</sup> machine-breakers from among handicraftsmen who regarded factory machines as the cause of their ruin and misery. It was not the machines that were to blame, however, but the way they were introduced.

Hence, we cannot speak of profit "in general". In economics such talk is meaningless and leads to errors. History is not marking time. As one socio-economic system gives way to another, some economic categories acquire a fundamentally new

<sup>1</sup> A movement named after a man called Ludd, who is believed to have smashed a factory knitting machine in the mid-18th century.

social content while retaining their form and name, as has been the case with profit. To repeat, everything depends on how profit is made, and in whose interests it is used.

In socialist society, as is clear from what has been said, there is no room for unearned income, swindling and profiteering. The exceptions, punished by law, only go to prove this rule. There are no exploiting classes, and hence no exploitation. Profit is created by collective labour for the good of society, and it is appropriated, not by private owners of the means of production, but by society as a whole, and is used in its interests and hence in the interests of all its members.

#### **Profit Distribution**

Let us examine everything in due order. Profit expresses the result of economic activity, namely, the excess of the income of an enterprise over its outlay.

A part of the profit received (in 1977 an average of 56 per cent in the case of industrial enterprises) goes to the state budget and is spent on education, health, culture and the arts, the environment and the establishment and maintenance of parks, stadiums and recreation areas.

The remaining 44 per cent remains at the disposal of the enterprise and is distributed through three channels:

- extension and improvement of production;
- payment of bonuses;
- construction of houses for employees, mainte-

nance of palaces of culture, sports facilities, and children's establishments.

Accordingly, every enterprise (amalgamation) operating on the cost-accounting basis sets up three special funds: the production development fund, the material incentives fund, and the fund for socio-cultural undertakings and housing construction. Work collectives who achieve high results in raising production efficiency have quite large financial means at their disposal which they use to renovate the plant, improve working conditions, develop the social infrastructure (holiday homes, stadiums, palaces of culture, sports centres, children's out-of-town health camps, etc.), build houses for their members, pay cash bonuses to them, and so on.

Now for some of the specific channels of profit distribution serving as task-oriented economic levers.

#### **Payments from Profit**

One of the top-priority tasks before the economic management agencies today is to improve the utilization of fixed capital and natural resources. Special payments from profits have been introduced for this purpose, such as *payments for capital*-remittance to the budget of a percentage (3 to 6 per cent) of the value of the fixed capital (machines, plant, etc.) and material circulating assets (raw materials, electricity, etc.). In 1979 industrial enterprises remitted nearly one-quarter of their profits to the budget as payment for assets.

The operation of this mechanism is, in principle, quite simple. The lesser the share of the fixed and circulating assets in the profit, the lesser part of the profit is paid to the budget and the greater part remains at the disposal of the enterprise.

*Fixed and rent payments* have also been introduced, aimed at placing enterprises which have different prerequisites for economic activity (especially in the mining industry) on an equal footing. It is one of the most complicated tasks of planned management, and a wide range of means is employed to accomplish it.

Its essence consists in the following. It is in the interest of society that material incentives should be made directly and solely dependent on the quality and efficiency of the performance of work collectives. This is a matter of principle. But it calls for providing equal initial conditions for all, for levelling the influence of external factors.

One more highly pressing problem is improvement of the quality of output, and this purpose is served by plan assignments, measures to improve technology and manufacturing techniques, and socialist emulation. Use is also made of task-oriented economic instruments.

#### **The Certification System**

Top-quality goods measuring up to world standards are awarded the state Quality Mark. The rest are divided into First and Second Category goods. First Category goods are those that conform to the present state of production and are in demand

among enterprises or the public. Goods that are to be withdrawn from production as technically obsolete are certified as belonging to the Second Category.

The following economic levers are used in stimulating quality improvement. The wholesale prices of goods bearing the Quality Mark are marked up, with the whole of the receipts from the mark-up going into the economic incentive funds of the enterprises or amalgamations producing those goods.

The opposite is the case with Second Category goods, which makes their production unprofitable. The principle at work here is already familiar to us, with the difference that it now takes the form of an economic sanction: what runs counter to the interests of society (production of obsolete goods) must be made unprofitable to the enterprises concerned and their employees.

There are other economic levers having the same sanctioning effect. Economic contracts concluded between enterprises, amalgamations and material-and-technical-supply agencies lay down the terms of delivery and specify the products' quality and range. Failure to comply with any of these stipulations entails a fine, affecting the economic incentive funds. Hence the incentive for work collectives strictly to observe plan and contract discipline and to satisfy social requirements more fully.

The cost-accounting system has undergone quite a few changes during its evolution. Here is hardly the right place to trace its history, so let us turn to the present.



### Current Trends in Cost Accounting

There are three main trends.

First, today the organization of cost accounting and the use of economic levers link up ever more tightly with the system of planning, especially long-term planning. Wider use is made of levers operating primarily on the basis of five-year rather than annual plans. This creates stability for every economic unit, broadens the possibilities for manoeuvre and in the final count conduces to raising the efficiency of production.

Second, cost accounting is being more consistently oriented to furthering intensive, qualitative factors of growth, using economic levers to hasten technological progress, raise productivity, utilize more rationally the fixed assets, raw materials, and natural resources, and improve the quality of output.

Third, cost accounting is being extended to more and more links of the economic system. Formerly it primarily regulated the operation of the basic units of the national economy—enterprises and their amalgamations. Today it is beginning to be applied to the medium link of sectoral management, i.e., the industrial amalgamations (which were discussed in the previous chapter) and, experimentally, to a whole sectoral ministry.

The system of sectoral cost accounting has for several years been tested in one of the leading industrial ministries of the USSR, the Ministry of Instrument Building, Automation and Control Systems. This industry wholly operates on the prin-

ciple of self-support. In keeping with rates approved in the five-year plan, all profit is distributed between the state budget and the ministry. The part remaining at the disposal of the ministry goes into the formation of centralized funds or is handed over to amalgamations. So far, this system has given a good account of itself.

It should be noted that this is not an isolated example. It is a rule in the Soviet Union to weigh carefully measures intended to improve the economic management system. Proposals based on scientific analysis and generalization of experience are thoroughly tested before their large-scale introduction. This truly scientific approach guards against subjectivism and undue haste in reorganization.

So far as the actual improvement of management is concerned, it is not an episode or campaign, but a law-governed, continuous and dynamic process. Large-scale measures in this field are to be undertaken in the near future.

## VI.

REFERENCE-POINTS  
OF PLANNED MANAGEMENT**In Step with the Times**

The historic achievements of the system of management through planning are in large measure due to the constant improvement of its forms and methods of organization based on immutable basic principles such as the guidance of the economy as a unified whole, democratic centralism, large-scale participation of rank-and-file working people, and combining plan assignments with economic levers. As for the mechanism itself, it has been constantly modified. The time invariably comes when what only comparatively recently yielded good results begins to act as a drag on economic growth and has to be improved or replaced altogether with something new. Each time, solutions have been found, applicable to the specific historical stage, which have helped achieve the set objectives.

In improving the mechanism of management it is essential to introduce the necessary changes in good time and apply methods which most fully suit the new conditions. It is part of the art of management to constantly have one's finger on the pulse of the moment and to march in step with the times.

**The Economic Reform**

The major changes that had taken place in the Soviet economy by the mid-sixties necessitated

overhauling the national economic management system. A start on the introduction of a new system of planning and economic stimulation, which came to be called the economic reform, was made by the decisions of the CPSU Central Committee plenary meeting in September 1965. One explanation would not be amiss here before we proceed to the essence and results of this reform.

In the Soviet Union, like in the other socialist countries, the prime moving force of social progress is the Communist Party, which initiates and organizes economic advance and improvement of the methods of running the socialist economy. This role of the Party in the life of Soviet society is constitutionally provided for: "Article 6. The leading and guiding force of Soviet society and the nucleus of its political system, of all state organizations and public organizations, is the Communist Party of the Soviet Union. The CPSU exists for the people and serves the people.

"The Communist Party, armed with Marxism-Leninism, determines the general perspectives of the development of society and the course of the home and foreign policy of the USSR, directs the great constructive work of the Soviet people, and imparts a planned, systematic and theoretically substantiated character to their struggle for the victory of communism.

"All Party organizations shall function within the framework of the Constitution of the USSR."

Thus it was no accident that the restructuring of the economy was initiated by the Party. In keeping with the decisions of the September 1965 plenary

meeting of its Central Committee the economy was re-oriented towards a sectoral management structure, planning methods were improved on the basis of consistent observance of the principle of democratic centralism, and a cost-accounting system resting on the comprehensive application of economic levers and stimuli was introduced.

The economic reform has produced good results. Since 1965 the country's economic potential has more than doubled.

Table 10

**Development of USSR National Economy  
in 1965—1977 (1965=100)**

	1970	1975	1977
National income used for consumption and accumulation	141	182	199
Total industrial output	150	215	238
Output in Group "A"	151	220	246
Output in Group "B"	150	205	221
Total agricultural output	123	126	141
Fixed production assets	148	224	260
Productivity	139	171	185
Retail trade turnover	148	202	221
Wage fund	148	201	221
Per capita real income	133	165	178

Such tangible advances in the economy and in the social sphere (witness the data on the growth of the wage fund, trade turnover and real income) within a comparatively short space of time testify to the effectiveness of the new system of economic planning and stimulation.

Some of the tasks formulated in the mid-1960s have been accomplished, others have to be modified due to changed conditions. Life does not stand still, and today the economy is in many respects not what it was 10-15 years ago.

Just as the same methods of instruction cannot be applied in secondary schools and universities, so the methods of economic management cannot remain unchanged while the economy expands, economic links grow in complexity, and emphasis is shifted to intensive growth factors. Improvement is regarded in the Soviet Union as a constant process and not a single undertaking.

The scale of production in the USSR has grown immensely. The Soviet economy is producing today more than the whole world did a quarter of a century ago.

The structure of the productive forces has also changed substantially. It is increasingly influenced by the latest achievements in science and technology. Our times demand that we put these achievements to the service of the people by organically fusing them with the advantages of the socialist economic system.

#### The New Work Force

Not only have the material aspects of the productive forces, production techniques and technology changed, but also the main productive force—the working people, their educational level and their qualifications. In 1939 the number of persons with a higher or secondary (complete or incomplete) education per 1,000 employed in the national economy was 123, and there were only 84 such persons

per 1,000 amongst the workers. In 1977, 780 out of every 1,000 persons employed in the national economy and 732 out of every 1,000 workers had a higher or secondary education. At the end of 1978 there were 1.3 million scientific workers in the USSR, one-quarter of the world's total.

The considerable rise in the level of real incomes and the solution of important social problems have been followed by a natural increase in and diversification of the requirements of the population.

Among the strategic tasks of social progress socialism envisages not only full satisfaction of existing needs (which is important, but not sufficient), but also their further development, extension and harmonization.

#### **Improvement of the Economic Machinery**

The changes that had taken place (the most important of which have been mentioned) necessitated further improvement of the planning machinery, and, as before, the initiative was taken by Communists. The decisive role in elaborating the concept and steering the improvement of the system of planned management was played by the 25th Congress of the CPSU in 1976. It was noted at the congress that reorganization of the existing management machinery had to be accelerated to make possible unhindered development of the economy.

The conclusions drawn by the congress were the result of a thorough analysis of current economic trends and of the outlook for the development of social production. Such analysis, conducted with the participation of leading scientists, research

teams, planners and economic executives, makes it possible to detect in good time the changes that the economy is undergoing, take stock of available experience, and carefully weigh all the options open. Basing itself on such analysis, the congress adopted a comprehensive long-term programme of measures designed to raise the entire system of planned management to an economically new level, bringing it into conformity with the new scale on which the national economy operates, with the new demands of the times.

The programme envisages, first, a fundamental improvement in all the elements of the planning system and, secondly, orientation of the managerial and, above all, planning machinery towards ultimate economic goals.

As has been noted, this fundamental overhaul of management was necessitated by profound changes in the economy itself. Old methods of running the economy, which had been used for decades, had begun to act, at times, as a brake on economic progress. Resources were not always used effectively; there were breaches of contract commitments as regards deliveries, and delays in completing construction projects. These facts were pointed out at the congress. The press, too, constantly calls attention to them.

Soviet people are accustomed to speaking frankly about existing shortcomings. This is well known to those who are familiar with the life of our country. For example, there is not a single issue of *Pravda*, the country's principal daily, without criticism of some or other occurrence or state of affairs. This open criticism is indicative of our peo-

ple's profound concern for the affairs of their country.

Today everybody agrees that the machinery of economic management needs to be improved. A whole complex of integrated measures is to be taken aimed at improving planning methods and indicators and the organizational structure of management, raising the effectiveness of economic levers and incentives, strengthening economic discipline, and improving the style of management.

The essence of this comprehensive approach consists in the following: the effectiveness of any measure in improving planned management increases when this measure forms a part of a system, and decreases when it does not.

However, it is important not only to coordinate the various measures, but to orient them as a system in the directions dictated by the new conditions. This orientation was clearly defined at the 25th Congress of the CPSU. Speaking at this Congress, Leonid Brezhnev said: "Managerial and, above all, planning activity must be directed towards *ultimate economic results*." <sup>1</sup>

The question of ultimate results is indispensable to understanding the processes which are under way in the Soviet economy now and which are connected with a new stage in the development of the planned management system. Therefore, I think, it merits more detailed consideration.

#### Ultimate Results

This category has several aspects, the most important of which is determined by the ultimate aim

of social production under socialism, the satisfaction of social requirements, i.e., satisfaction of the requirements of society and of its individual members, solution of social problems with a view to improving the life of the people. From the viewpoint of national economic development this represents ultimate results. In addition to satisfaction of the requirements of the public, the development of science and the fulfilment of export commitments are also understood under this heading.

In practical terms this means directing the planning, economic stimulation and other elements of management to precisely these ends. To be sure, intermediate products, such as coal and oil, steel and plastics, agricultural raw materials and energy, are also important, but their production is only a means, not the end itself. Though it is desirable, of course, that the end products be made with the least expenditure of intermediate products.

Here is an example. The plan for 1976-1980 provides for a two per cent increase in timber procurement, which is a low rate of growth. But from the viewpoint of ultimate results, data about growth of timber production do not mean anything, for timber is not an end product either for the national economy, or for the industry. As for the growth rates of the end products in the timber and wood-working industry, the five-year plan provides for increasing the output of furniture by 40-50 per cent, pulp by 35 per cent, and wood-fibre and chip boards by 60-85 per cent.

It is clear from this that the low rate of timber procurement testifies to the orientation of the in-

dustry towards a large volume of end products with the effective utilization of raw materials.

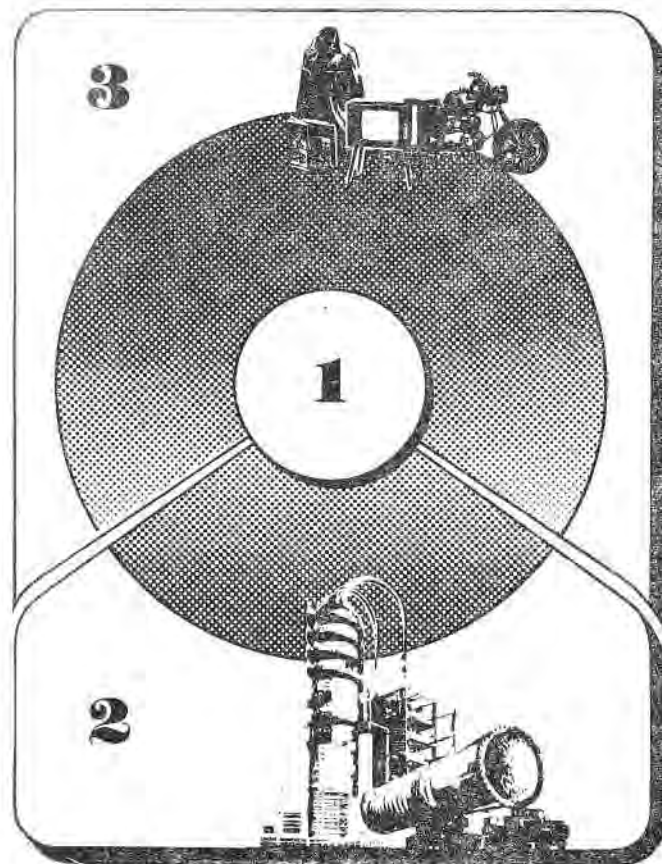
This example also illustrates the new approach to growth rates characteristic of the current stage of development of the planned management system. In the scale of the national economy as a whole, the ultimate results have their generalized expression in the volume of the national income used for consumption and accumulation.

In the practice of Soviet economic planning the volume of the national income is calculated in the following way. The annual material expenditure is deducted from the aggregate product of the branches of material production (industry, agriculture, building, freight transportation). The balance forms income as such. Material expenditure cannot, of course, be regarded as income. The national income is spent in two forms, as the *consumption fund* and the *accumulation fund*.

The *consumption fund* is spent to satisfy the personal and collective requirements of the population in the current year, and it provides wages, social consumption funds, and social services. The *accumulation fund* is used for extending production and for the non-productive sphere (construction of houses, hospitals, cultural and sports facilities, etc.) or, in other words, for satisfying the requirements of the population in the future.

For this reason the size of the national income, its growth rates and its absolute increment constitute the main objects of planning and are used as the criteria for optimizing the plan.

End results are achieved not only on the scale of



**Diagram 3**

Utilization of USSR National Income in 1978  
(thousand million roubles)

1. The whole national income	417
2. Accumulation fund	110 (26%)
3. Consumption fund	307 (74%)

the national economy, but in each unit of the economic system, where they have their own specific features. What is regarded as the end product of a production enterprise or amalgamation? It is satisfaction of the requirements of the consumers in their produce whose purpose is determined by the plan and a system of contracts. Hence, fulfilment of consumers' orders as regards the volume, range and quality of goods and the time-limits for their delivery is the chief criterion in assessing the results of the economic activity of enterprises.

It is in this direction that the improvement of the management of enterprises and amalgamations is proceeding today. In planning, in the conclusion of contracts, in the provision of economic incentives the greatest importance is attached to satisfaction of consumer requirements. Here, too, it is not the overall volume of production in millions of roubles or tons that is important, but concrete, socially meaningful end products.

Today fulfilment of the plan is assessed not only in terms of the overall volume of production but also in terms of the way the consumers' orders are met. The product which does not satisfy the consumers' requirements as regards its quality, range, etc., is not counted towards plan fulfilment—and severe economic sanctions are taken in the event of failure to fulfil the plan or carry out the contracts.

The other aspect of the category of end results is efficiency, i.e., output per unit of raw materials, fuel and energy, per rouble of fixed capital, and higher labour productivity.

### **Raising Production Efficiency**

An important feature of the present stage of the improvement of the planning system in the USSR is control over the process of growth of efficiency. This is more difficult than, let us say, management of the construction of new enterprises or control over the growth of the volume of production. In general, there are no easy tasks in management. Moreover, the complexity of the tasks increases as the scale of production grows and the scientific and technological revolution unfolds.

The whole armoury of planned management techniques is employed in raising the efficiency of production as a component of the orientation of the economy towards improved end results. Raised standards of production efficiency are becoming the starting point of planning. Economic levers are ever more consistently operated to improve the qualitative aspects of growth. Material incentives are being made directly dependent on efficiency in utilizing manpower, material and financial resources.

Finally, there is one more aspect of end results, which is connected with one of the most valuable economic resources—time.

### **The Time Factor**

Of course, it is important to have the amount of goods and services necessary for the satisfaction of requirements, and to produce them with the least expenditure of resources. But it is equally, and in a certain sense even more, important to obtain these

goods and services on time—today and not tomorrow, this year and not five or ten years later. Therefore concentration of resources on key sectors, clear-cut allocation of priorities, cutting construction time and faster application of scientific and technical innovation directly bear on the improvement of ultimate economic results.

Here are some of the guidelines for taking account of the time factor in the work of improving management as laid down by the 25th Congress of the CPSU:

- *in planning*, to take an accurate account, in addition to money and resources, of the time required to complete various projects and to choose alternatives that will yield the quickest return;

- *in providing incentives*, to encourage the saving of time and to apply strict sanctions against time wasting;

- *in organization*, to eliminate superfluous links and bureaucratic procedures and to expedite decision-making.

The drafting and implementation of measures to improve management do not occur spontaneously but are governed processes which form part of the long-term economic development policy. The Soviet economy today is characterized by a vast scale of production, dynamism, stable growth rates, and a consistent orientation to improving the life of the people. All this is the result of six decades of hard work. And at the same time it is the launching pad for a new lift-off. Relying on a mighty economic, scientific and technical potential, the socialist planned management system is opening up ever greater vistas before the Soviet economy.

## CONCLUSION

The emergence and subsequent success of a system of management of the economy through planning are among the milestone events of our century, something that history has never witnessed before. The Soviet experience in managing the national economy exerts and will continue to exert a beneficial influence on the minds of millions of people throughout the world, winning them over for the most effective path of social renovation. Different attitudes to this experience can be adopted, but to be ignorant of it means to be ignorant of the modern trends of social development.

Planned economic management is an exceptionally complex phenomenon. It has a theoretical basis of its own, time-tested principles, a complex organizational structure, and its own particular apparatus and methods. It reflects the dialectics of real economic processes. The combination of centralism and autonomy, professionalization and democratization of management, competition and mutual assistance, and other such principles, rooted in the realities of life, help keep up the economy's vigorous development. It stands to reason that at a particular stage, place or moment one of the aspects may become dominant. But if the mechanism of planned management is judged by only one of its aspects its essence is bound to be distorted, and one-sided evaluation has never brought about positive results. That is why I have constantly striven to show how the principles of planned management are implemented in real life.

The planned management system is not a rigid,



inflexible scheme, but a living, constantly developing organism. It has a rich history, a present, and a future. Today the steps that were taken during the initial stages of the establishment of this system may seem naive or irresolute, just as a child's concerns may seem funny to grown-ups. And yet it is the first steps that retain for ever the fascination of novelty, the wonderful feeling experienced by pioneers and trail-blazers. After all, you can't blame Aristotle for having not known the quantum theory or Newton for having been innocent of the theory of relativity.

The problems of planned management should be viewed in a historical context. Life is in constant motion; ever new demands are made of management of the economy; its methods and its very mechanism change. That is why I have endeavoured, where possible, to show the dynamism of the management system, its development and improvement at different stages of the history of Soviet society. A creative approach to the solution of the problems of socio-economic progress is one of the characteristic principles of the Marxist-Leninist concept of the management of the Soviet economy.

\* \* \*

Reading this book may have induced readers to familiarize themselves more thoroughly with the organization of the management of the socialist economy. I shall only be glad if this is so. It may have given rise to new questions, answers to which can be found in many other Novosti publications on this subject.

Leonid ABALKIN  
*How the Soviet Economy Is Run*

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на английском языке



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He was born in Moscow on May 5, 1930. A graduate of the Moscow Institute of the National Economy (1952) and a post-graduate student of the Moscow Institute of Economics (course completed in 1961), he has, since 1953, combined research work with teaching.

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