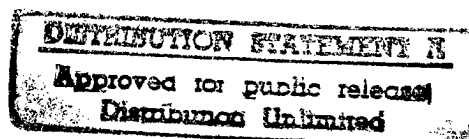




# ***JPRS Report***



## **Soviet Union**

### ***Economic Affairs***

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# Soviet Union

## Economic Affairs

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## ECONOMIC POLICY, ORGANIZATION, MANAGEMENT

### Finance Official on Size, Function of Central Apparatus

18200265 Moscow PRAVITELSTVENNY VESTNIK  
in Russian No 5, Mar 89 pp 3-4

[Interview with Vladimir Georgiyevich Panskov, USSR first deputy finance minister, by L. Chernenko: "Eighteen Million Supervisors. Who Are They? How Necessary Are They?"; date and place not given]

[Text] This figure has been used among the weapons of many journalists as a hard-hitting argument against the managerial apparatus. "Bury those 18 million parasites here," says one of the characters in the play "The Quiet Cemetery," which is being given at the "Contemporary" Theater in Moscow, as he digs a grave to the approving roar of the audience. Such "reproaches" have also been resounding in numerous publications, creating the impression that millions of useless bureaucrats whom no one needs are sitting on the people's neck and are the origin of all our economy's troubles.

Well, it is, of course, an impressive figure. But let us not give way to emotions, but to figure out calmly who these 18 million people are. Is that too many or too few? Our readers have been putting such questions. We called upon Vladimir Georgiyevich Panskov, USSR first deputy finance minister, to answer them; after all, through financing channels it is that ministry that keeps its eye on all the quantitative characteristics of the managerial apparatus.

[Chernenko] So, Vladimir Georgiyevich, who are the people behind that figure of 18 million?

[Panskov] To be precise, 17.7 million, or 14.9 percent of all workers and employees. That is the figure as of 15 September 1985, when a count was taken of the number of supervisory personnel. To be sure, this does not include supervisory personnel of kolkhozes, the USSR Ministry of Defense, USSR MVD, or USSR KGB.

These figures have been alluded to for a number of years now. But there have been changes since that time related, first, to the development and improvement of the management apparatus and, second, to correction of the nomenclature of management personnel, the new content of managerial work, and revision of the functions of the various personnel categories. The detailed data of the count taken by USSR Goskomstat on 15 November 1988 will be known only in April. (PRAVITELSTVENNY VESTNIK will unfailingly report on this—editors.)

That being said, if we turn to the figure which is usually used, that is, the 17.7 million persons, the overwhelming majority of them—15.3 million (and this is neither too many nor too few—about 90 percent) work in plant

managements and shops of enterprises and associations and in social and cultural service institutions. Thus, at industrial enterprises there are about 5.5 million managerial personnel, in construction organizations just more than 2 million, in agricultural enterprises 1.2 million, and there are 1.7 million in institutions of the health service, public education, science and scientific services, and social security.

Managerial personnel at enterprises include about 3.4 million managers and deputy managers of those enterprises and their structural subdivisions, 2.5 million specialists, about 1 million economists and engineer-economists, more than 2 million foremen and supervisors, and about 400,000 shop chiefs and their deputies.

Aside from that, this number includes school principals, hospital chief physicians, kindergarten directors, and so on. I am sure that most of them think of themselves proudly as managers. As we see, this figure also includes a very impressive number of foremen, of whom no one will say that they are wearing out the seat of their pants if he knows even a little about life.

In the central headquarters of ministries and departments, on the staff of executive committees of soviets of people's deputies, in judicial bodies and procurators' offices there are about 2 million persons, or slightly more than 11 percent of all the managerial personnel. The most sizable group here—1 million persons—is employed on the staffs of executive committees of soviets of people's deputies of krais, oblasts, cities, and rayons and in rural and settlement soviets. The central headquarters of USSR ministries and departments account for 82,000 persons. The expenditure from the budget to maintain the agencies for government administration, the courts, and the procurators' offices, including wages, is 2.9 billion rubles. This amounts to no more than 7.5 percent of all expenditures for management. If we divide the expenditures for government administrative agencies by the total expenditures of the budget for 1989, we get 0.6 percent. Of the management personnel financed from the budget, approximately 70 percent work in oblast and kray executive committees, 108,000 in gorispolkoms and city rayon ispolkoms, 137,000 in rural rayon ispolkoms, and 200,000 in village and settlement soviets. Half of all budget expenditures for management is spent precisely for these local government and administrative units where the staff is small as a rule.

[Chernenko] Indeed, when those 17.7 million are distributed among the various levels of the administrative pyramid, it no longer seems to be so impressive. And many of those who are disturbed by the larger apparatus turn out to be a part of it themselves. But nevertheless—is this too many or too few? How do we look here in a comparison with other countries?

[Panskov] That is hardly a question that can be answered with a yes or no. It seems that from the standpoint of the future the entire nonproduction sphere, including the management apparatus, must grow. In any case, a trend toward growth of the managerial apparatus has been observed in the United States, West Germany, Japan, and the other advanced countries.

In our country, 15 out of every 100 persons employed in the economy is classified in the management apparatus. For comparison, the figure in the United States is almost twice as high—27. And this at the same time that the American manager is incomparably better furnished with equipment than ours is—he has personal computers and also various office and business machines. So that there is some basis for supposing that we actually do not have so many managers.

But undoubtedly we also need to look at this problem from the other side. To reflect, for example, on how sizable a contribution the managers really make to acceleration of our development? And if the economy starts to slip, if there is a shortage of industrial goods and foodstuffs, if real social problems are still being resolved slowly, then it is legitimate to speak on the one hand about the need to reduce the number of managers and on the other about a radical improvement of the management structure and a sharp increase in the demands placed on the specialists who are employed in it.

[Chernenko] How is the effort going to improve the management structure, to eliminate unnecessary levels and duplicated effort?

[Panskov] Master charts of management have been drafted and approved in the last 2 years with the help of USSR ministries and departments and councils of ministers of union republics. Their implementation is nearing completion. Enterprise management has as a rule been converted to a two-level system: the ministry and the enterprise, all-union and republic industrial associations, and other intermediate levels have been abolished.

This has resulted in the elimination of about 200 ministries and departments of the USSR and the union republics, 150 ministries and departments of autonomous republics, and more than 1,700 agencies for management of the economy. As a result, the management apparatus of ministries and departments, soviets of people's deputies and their agencies has been reduced by almost 600,000 persons in the last 3 years. The reduction has been 63,000 just in the central apparatus of USSR ministries and departments and their subordinate administrative agencies. Pursuant to the decisions made, the funds made available by the staff reduction are being committed to incentives for working with fewer personnel. In addition, more than 450 million rubles of the saving from the staff reduction are being transferred to the budget.

It needs to be particularly emphasized that this is not a mechanical reduction. Such an approach has never yielded good results. The main thing lies in changing the functions of the apparatus in those directions which the economic reform is offering: simplification of the structure and greater management effectiveness.

Is our management apparatus ready for such a restructuring? Not altogether, I think. This is one of the main problems. So long as we observe the predominance of the "technocrats" in the management corps. For example, according to estimates of scientists, 80 percent of enterprise directors and ministry officials have engineering and technical education and only 20 percent education in the fields of management, economics, finance, and law. For the sake of comparison: the picture is exactly the opposite in the United States for analogous personnel; that is, the figures are 20 percent and 80 percent, and in Japan they are 44 and 56 percent, respectively. The style of management is changing, there also has to be a qualitative change in management personnel.

[Chernenko] You have discussed in detail the effort made to improve the structure of the apparatus and to reduce its size in what we might call the upper echelons of management. Here, the line of reducing it is clearly visible. What is happening at enterprises? How is state regulation of the number of managers and expenditures to maintain them accomplished there? What are the plans to solve the tasks of saving on those expenditures?

[Panskov] The decisions of the USSR Council of Ministers have now given the work collectives of enterprises and associations practically unlimited rights in the field of management. Since 1987 in industry and construction and since 1988 in all other sectors of the economy, administrative regulation of the size of the management apparatus and of expenditures to maintain it has been abolished. The procedure under which the staff rosters of the management apparatus and estimated costs of maintaining it must be approved only within the limits of centrally assigned limit-allowances on the number of managerial personnel and the maximum appropriations to maintain it has been abolished.

Now, the enterprise's work collective approves its own staff. There is only restriction here: the total wage fund or remuneration fund of the enterprise as a whole. Work collectives now have a direct interest in maintaining a small and optimum management apparatus and on that basis to augment their cost accounting (khozraschetnyy) income or to have at their disposition more funds to provide incentives for workers directly employed in product production.

[Chernenko] But meanwhile not only is the previous management style being preserved at many enterprises, but we also observe the old trend toward a larger staff and larger outlays to maintain it. How is this to be overcome?

[Panskov] As a matter of fact, according to figures of USSR Goskomstat, between 1985 and 1987 there was a growth of more than 200,000 persons in the management apparatus at industrial enterprises, and the share of these personnel in the total number increased over that same period from 11 to 11.8 percent. The same trend has shown up again in 1988 at many enterprises and associations, as shown by a sample study done by USSR Minfin.

For example, formation of the NPO "Kompleks" of USSR Gosagroprom was accompanied by the creation of a specialized management staff while at the same time the structure in the enterprises making it up was preserved with practically no change. As a consequence, the costs of maintaining the management apparatus in that association increased by more than 135,000 rubles, or 38 percent. The "Khimreaktivkomplekt" Plant near Moscow declined 48 percent in its volume of output and 67 percent in its profit in 1988. At the same time, the number of personnel in the management apparatus increased. Their share in the total work force rose from 16.1 percent in 1986 to 19.5 percent in 1988. The production association "Ukrneft" of USSR Minneftprom, which has shown a constant drop in indicators for production of petroleum and gas, has increased the size of its management apparatus by 18 percent since 1985. At a plant of the NPO "Ukrkhimmash" of USSR Minkhimmash, the size of the management staff increased 52 percent while by comparison to 1985 the volume of output has risen 25 percent and the total labor force 2 percent. There are quite a few such examples one could cite.

According to the overall data of the count taken by USSR Goskomstat as of 15 November 1988, which have just been received, the number of management personnel of enterprises and organizations increased more than 660,000 persons in 3 years, or 5.4 percent.

The USSR Law on the State Enterprise (Association) is straightforward in its provision that the enterprise must achieve a relative reduction in the number of management personnel and the share of resources committed to maintaining them. It is evident that fulfillment of this requirement needs to be monitored more closely. First of all, work collectives must have their say here; so far, unfortunately, they still are having too feeble an influence on the process of improving the management staff and making it less expensive. Unfortunately, the new economic mechanism is not taking hold here either.

At the same time, enterprises and associations and their workers' councils need effective help in organizing managerial work. Sector and regional centers for scientific management, which are now being created, are called upon to promote performance of that task.

In addition to those centers, in every national economic complex there ought to be cost-accounting associations, that at first would be small, to concern themselves

specifically with studying and analyzing experience in the restructuring of the methods and the organization of the management of production.

On that basis, they must first of all furnish broad information to enterprises about everything that is new and progressive, and then undertake to set up optimum management systems on a contract basis. The organization of this effort in the branch and the training of management personnel must become one of the principal functions of ministries. A real rise in the labor productivity of workers employed in management, and consequently a reduction in their number as well, can be achieved by improving the management of the enterprise.

The restructuring of the system of enterprise management bodies must be continued. Along with its further improvement and the reduction of its size, the question of transforming the very content of the work of ministries and other bodies to which enterprises are subordinate is being advanced to the foreground. Their place in the new economic system has not been clearly defined as yet, nor has a general regulation on the ministry been approved. The work of ministry staffs has not always fitted within the framework of the reform.

[Chernenko] As a result, doubts are being expressed as to the advisability of the very existence of ministries.... For example, according to figures in the newspaper MOSKOVSKIYE NOVOSTI (No 8, 1989), 14 percent of the readers surveyed feel that in order to remove obstacles in the way of restructuring all branch ministries should be immediately eliminated and their sublegal acts and instructions revoked....

[Panskov] But if we take objective reality as our point of departure, one cannot fail to see that enterprises (associations), however broad the rights vested in them, cannot perform a number of tasks vitally important to them each on its own, and they are objectively in need of a body which performs such tasks in their general interests and performs the functions of an intermediary. In the context of the administrative system, enterprises were oriented toward production of that product which they could produce and which they would like to sell, while the purpose of the economic reform is to orient them toward manufacturing that product which will have a market. Small enterprises in a branch, scattered over the country's immense expanse, are not able to independently determine demand, to organize scientific research projects to create new prototypes of products, to standardize components and establish standards concerning them, nor to organize the system of sales, distribution, and advertising.

Enterprises themselves have an objective interest in the ministries and other bodies performing these and similar functions, since the size of their profit, and consequently the stability of cost accounting and self-financing, depends in large part on their successful performance. It

is self-evident that these bodies must be shaped to conform to new tasks: they must have the optimum structure and a small staff of the appropriate level and qualifications, people whose thinking and actions are up-to-date.

Improvement of the organization of management within enterprises is a most important problem of restructuring. The structure of the apparatus and the functions of management were formed in enterprises over decades to meet the requirements of the centralized system. The absence of the market with its requirements and laws, the monopoly of production, the guaranteed sale regardless of product quality, and coverage of the failures of enterprises performing poorly at the expense of profitable enterprises, and the other attributes of the centralized system developed corresponding work methods and psychology on the part of managers.

How is the performance of this apparatus to be restructured and how is the new type of manager to be trained? It would seem that now that the Law on the Enterprise has granted it the broadest rights in determining staff size and structure, now that it can display initiative in choosing its organization and methods of management with no restriction at all, things should move forward. But so far no substantial changes have been noted.

The whole point is that in spite of widespread opinion the organization of management is a very complicated problem, solving it requires not only desire and ability, but also professional habits and knowledge. Unfortunately, we have a shortage of management specialists. But we have no right to wait until they are trained, and we simply cannot do it. We must begin immediately and begin by providing broad information on the experience of those enterprises which have been able to achieve constructive results in the organization of management.

In connection with all I have said, I would like our scientists in the fields of economics, sociology, and management to furnish more constructive proposals precisely on the problems of optimum relations between enterprises and ministries and improvement of management within production itself.

[Chernenko] Yes, there are not many such proposals at present. At the same time, there is no shortage of criticism of the management apparatus. To be specific, it is being said that the management apparatus is becoming the main brake holding back restructuring, that we have to "throw off this rider." It is possible, they say, to get along without him. How valid is that proposition?

[Panskov] No one can imagine a state without a management apparatus except someone who is naive and incompetent or someone who craves cheap popularity (it has now become fashionable to criticize the establishment), or a man who is deliberately trying to cast doubt on the need for and importance of centralized management and to compromise the apparatus.

Any more or less enlightened system requires management from a single center, and the more complicated the system, the more necessary that management is. No one anywhere has so far learned to manage without an apparatus. Otherwise, it is anarchy.

It does not seem that the question should be whether to have an apparatus or not. The right question is this: What should it be like? After all, the oversights and lapses in the economy did not occur because the management apparatus existed, but because the management methods and the organization of the apparatus were poor, did not meet the objective requirements of social production. An attempt was made to make up for the low level of management with the number of management bodies and by exaggerated growth of the staff.

In the present stage of restructuring, the role of the management apparatus is not only not decreasing, it is in fact growing. In some publications, an opposition is set up between a management system based on the apparatus and a democratic management system. I do not think this is altogether correct. These systems can and must complement one another organically. Any democratic system must and will have its own apparatus.

A particular demand is put on the management apparatus. After all, all of our past and future troubles and triumphs are largely determined by the question of to whom we entrust management. And here we need to particularly emphasize that the entire system of management, all its bodies, are essentially the result of the development of the entire society over the previous period. Both the collective wisdom of experience that has been gained and the dislocations and distortions caused by voluntarism and incompetence are concentrated in it.

Elements of the past, present, and future always exist simultaneously in the management apparatus, of course, just as it does in any developing organism. It is no simple task to examine those elements in their interrelationship and to discover the patterns of that organism's development. Especially since that organism is determined by a complicated range of factors. It is the offspring and long-suffering child of the economic, social, and political systems that have taken shape in the country. But this task has to be performed. And not mindlessly, in an assault, but judiciously, armed with experience, with the necessary knowledge, with political maturity, thriftily, in stewardly fashion. Only in that way is it possible to build the new type of management apparatus.

#### **Gosplan Official Evaluates Reforms, Notes Problems, Future Trends**

*18200201 Moscow PLANOVYE KHOZYAYSTVO in Russian No 1, Jan 89 pp 3-13*

[Article by S. Sitaryan, first deputy chairman of the USSR Gosplan: "Urgent Questions of the Realization of Economic Reform and Restructuring of the System of the Management of the Economy"; the basis for this article is a speech to the staff members of the USSR Gosplan]

[Text] The process of the restructuring and the renewal of the entire system of administration and management,

which was initiated by the April Central Committee Plenum of the party, is entering an extremely difficult, responsible and crucial stage. During the past 3 1/2 years, a large amount of theoretical work was done with respect to the formation of an integral system of management, the construction of a new model of socialist management, and the creation of economic and legal foundations for its operation. We have begun in earnest with an, in terms of its character and scale, unparalleled action—the practical pulling down of the management of the economy, which was complicated by the command-administrative system, and the transition to economic methods of management and the democratization of the entire productive life of the country.

It goes without saying that this is a difficult and multi-step process. It encompasses a certain period of development, with all the signs and contradictions that are characteristic of any transition period from the old to the new.

Today an extremely peculiar coexistence of economic and administrative methods of managing the economy is noted in the national economy. A situation has developed where the introduction of the principles of full *khozraschet* and self-financing in the enterprises is still combined with the preservation of administrative pressure on them on the part of the ministries and central economic organs, when the activation of these principles comes into increasingly greater contradiction with the mainly centralized planning of material resources and contract work, with the existing system of price formation, with the extreme lack of development of the socialist market, and many other elements of the new economic mechanism. It is impossible not to take into account the fact that the transformations begun in the economic sphere do not yet rest, to the proper extent, on the reorganization of political structures and state administration. Their reform is only beginning, which cannot but have an effect on the general state of restructuring of the system of the management of the economy and its depth.

All of this is indicative of the fact that the economic reform is in the stage of development and movement. If we attempt to characterize the general picture of today, we can say that the new is increasingly becoming more consolidated and growing stronger in the economic structure of the country. And the field of action of the old is becoming increasingly narrow and is being replaced. Nevertheless, this process is by far not complete, and, it should be said directly, at the beginning of the road it seemed simpler and easier. For this reason, an objective and critical analysis of the first practical steps, the comprehension of the problems, difficulties and contradictions, which have arisen and arise on the road to the new model of the management of the socialist economy, and the exposure of progressive trends and braking factors, are of great significance for an essential increase in the management level by the whole course of the realization of the economic reform.

It is well known that the point of departure and cementing basis of the new model of managing the economy is the basic link of the national economy—the enterprise. Such an approach is not accidental. It was precisely here that all the shortcomings and defects of the system of planning and management previously in operation were distinctly visible. It was here that all the threads of management came together, here they became interwoven, forming a tight knot of the administrative-command system, which increasingly fettered the initiative and decreased the responsibility of the labor collectives, gave rise to dependence and levelling, complacency and indifference to the end results of activity, depriving enterprises of effective stimuli to self-development. For this reason, the urgent task consisted, above all, in forming the new model of the vital activity of enterprises on the principles of self-support, self-financing, and self-control as the most consistent and new form of the realization of cost accounting in the present-day stage and to proceed to its practical realization.

The first step on this road was taken in 1987. However, the large-scale transfer of enterprises to the new conditions of management took place in 1988. The enterprises of the machine building, chemical and forestry, and construction complexes, ferrous and nonferrous metallurgy, the oil and gas industry, transportation and communications, the scientific organizations of the indicated complexes and industries, and the enterprises of individual regions of the agroindustrial complex are now operating on the principles of full *khozraschet*.

1989 is the year of the completion of the transfer of enterprises of the sphere of material production to the principles of *khozraschet* and self-financing. All enterprises of the defense complex, the coal industry and power engineering industry, grain products and land-improvement, and the agroindustrial complex are preparing for the transfer.

Thus, after an extremely short term—2-3 years—one of the central and difficult tasks of the economic reform will be realized—the transfer of the activity of the enterprises of all branches of material production to the principles of *khozraschet* and self-financing.

The maximum possible compression of the time frame for the solution of this task, in our view, will be of extremely great significance.

First of all, it significantly increases the general dynamism of the process of restructuring of the whole system of management and thereby creates the conditions for its irreversibility. One can recall that in the past, during the realization of the ideas of the 1965 reform, the process of the transfer of the enterprises of the material production industries to the new management conditions was stretched out for 10-15 years, in the course of which its principles were gradually lost and the practical curtailment of the very reform took place.

Secondly, the projected tempo and scale of the transfer of enterprises have considerable importance also for the intensification of the pressure on the upper echelons of management—the ministries and central economic organs—with a view to the acceleration of the restructuring of their activity. One of the mistakes of the 1965 reform consisted in the fact that changes in the enterprises, in essence, did not affect the other levels and spheres of the management of the economy and did not have a growing influence on the other spheres of the management of the economy, dictating the necessity of changes in the methods of their activity. The reason for this is the sluggishness of the transfer of enterprises to the new conditions, their insignificant mass. As a result, a condition developed where the revival of economic methods in the basic link began to run up against the opposition of the sufficiently far-flung system of administrative-command methods at the higher level. And this opposition in the final analysis resolved in such a way that the higher echelons could restrain the new principles, which had begun to develop and take shape in the primary link.

And, finally, thirdly, the adopted tempo and scale of the transfer are calculated on the largest and fastest possible return from the reforms being carried out, the overcoming of the negative processes that have accumulated in the past, and the leading out of the economy to a new quality of growth.

It goes without saying, the results of the work of the enterprises in the new conditions will be put together later. But now, if we are to assess their work by the traditional method, the method of indicators in action, one can name some figures. Above all, there has been some improvement in the indicators of the fulfillment of contract obligations: During the 11 months of 1988, they were 0.6 percent higher than by comparison with the corresponding period of the past year. Also higher is the growth of industrial production in the enterprises operating on full *khozraschet*.

An analogous situation is taking shape also with the labor productivity growth rates. During the 9 months of 1988, they came to approximately 6 percent, while in the past this indicator developed at the level of 3.3 percent. This made it possible for the first time not only to secure the growth of production through labor productivity, but also to begin the real reduction of employees in the sectors of industry. It is expected that it will come to about 1 million people.

Profit is growing at high rates. A certain positive trend is taking shape also in the reduction of products. During the 9 months of 1988, expenditures per 1 ruble of commodity production decreased 1 percent for enterprises operating on full *khozraschet*.

However, it should be directly said that the effect and result of the new methods of management can hardly satisfy us, and especially in such spheres as resource

conservation, product quality, and the introduction of the achievements of science and technology in production. The so-called "explosive" effect has not been obtained up to now. But it is impossible, of course, not to take into account the fact that the term of operation in the new conditions in and of itself is small, that the new mechanism is built on factors of a long-term character, and they do not yet work the way they should. We should also take into account the general state of the economy, that burden of unresolved problems with which the country went into the 12th Five-Year Plan. But the chief result is practical experience, with all of its pluses and minuses, that has already accumulated. It makes it possible to bring the discussions about reform into the proper channel, to check against practice.

If we analyze the first practical steps of the realization of the ideas of the reform from these positions, we discover that the mechanism of the new management methods itself was not properly perfected at the outset. There were also shortcomings and direct miscalculations, and in the course of the transfer of enterprises to the principles of *khozraschet* and self-financing unforeseen problems and difficulties arise. In increasing measure, the lack of the requisite complexity in the realization of the ideas of the reform is felt, the sluggishness in the solution of a number of practical questions.

In short, in order to move forward more confidently, it is necessary to present clearly the main directions of the work lying ahead, the tasks which arise now, and possible practical ways of their solution.

Of the whole totality of the problems—and they are multi-faceted—one can single out the two most practically significant groups. The first is connected with the choice of the ways and forms of the further development of the *khozraschet* principles of the organization of the activity of enterprises; the second, with factors of an external character for the enterprises, which hold back the stimuli of their self-development.

Let us begin with the first group. It is a well-known fact that, in conformity with the Law on State Enterprise, its *khozraschet* activity can be organized in accordance with two models. The first is based on profit, the second on gross or *khozraschet* income. The basic mass of enterprises, as is well known, has gone over to the first model and only an insignificant group is operating in accordance with the second model.

All in all, 943 enterprises and organizations operated according to the second model on 1 November 1988: In machine building—202, with 144 of them in automobile building maintenance; in the USSR Ministry of the Electrical Equipment Industry—52; the USSR Ministry of Geology—81; in light industry (basically this is the BSSR Ministry of Light Industry)—62; in the BSSR Ministry of Consumer Services—about 300; in the USSR Ministry of Ferrous Metallurgy—2; and in the USSR Ministry of Nonferrous Metallurgy—4.

As experience shows, the first model proved to be more standardized and, therefore, less effective. In it the mechanism for the formation of the wage fund was most poorly worked through. According to this model, the wage fund is composed of two elements. Its principal part is the base fund, which is determined in absolute sum on the basis of the results of the work of the enterprises during the preceding year; the second, smaller part is calculated in accordance with the norm depending on the growth of production during the current year.

According to the second model, the entire wage fund must be earned all over again, trying to attain high, not only production results, which is very important, but also financial results. It is formed on the basis of the principle of the residual method within the limits of the earned khozraschet income of the given year. The higher incentive stimuli of the work of enterprises compared with the first model are located in this mechanism.

The effect of the second model is determined by the following, extremely important circumstance. If in the first model the wages are more linked to production (commodity or normatively net production and the rates of their growth), which predetermined the weakness of the anti-expenditure bases in the mechanism of its operation, in the second model wages as a part of gross income are determined not only by the growth of production, but also within the limits of the remainder of this income through the economy of material expenditures. Thereby it carries in it an anti-expenditure principle and is, therefore, more efficient. Thus, enterprises operating in accordance with the second model achieved higher results than those which went over to the first model. In particular, enterprises of the USSR Ministry of the Electrical Equipment Industry, operating according to the second khozraschet model, have higher fulfillment of contract obligations than for the industry as a whole (98.9 and 98.8 percent respectively), higher than the production growth rate and the growth of profit.

At the same time, the transition to the second khozraschet model for the time being is still going slowly. There are a number of reasons here. Above all, it should be said that this model is more strict, does not tolerate losses, and more perceptibly punishes the labor collective for miscalculations in its work. For this reason it is no accident that it is preferred by relatively strong enterprises, which are profitable, work reliably, and without drops. Further. The second model substantially complicates and frightens away some collectives in connection with the fact that wages, as was indicated, have to be earned every time, as it were, from the start; there is no guaranteed base fund here. Moreover, this model harbors the threat that the enterprise, in some period of work, may in general not have the means for the payment of wages and will be compelled to seek loan sources.

And, finally, in the existing mechanism of the second khozraschet model there are also other elements which do not allow it to develop fully. The system of calculation, for example, is not fine-tuned. The question is raised: Is it necessary to keep parallel account of production cost and profit when making the transition to this model and for what purposes? There also arises the question concerning the regulation of the growth of wages and khozraschet income.

At the present time, on the basis of proposals of the ministries and departments, recommendations have been developed with respect to stimulation of the use of the second model, and it is planned to give more rights to enterprise in the utilization of khozraschet income and in the payment of wages. All this makes the second model more attractive for enterprises and makes it possible to introduce it more actively, thereby promoting the increase of effectiveness of the mechanism of self-financing and khozraschet.

In the search for ways of activating the interests of labor collectives in the course of the realization of the economic reform, the lease form of organizing the khozraschet activity of enterprises has become increasingly widespread in recent times. This form is frequently called the third khozraschet model; although, in essence, its economic contents is richer, it may become one of the promising and progressive directions of the realization of socialist property, which permits the close fusion of the interests of the individual, the collective, and society.

The lease form, as is well known, came into being during the restructuring of the agroindustrial complex. From the beginning of 1988, it quickly began to interest a number of enterprises of other sectors of the national economy and began to develop sufficiently energetically, especially in small and unprofitable enterprises. In Moscow Oblast alone, 270 labor collectives are operating on lease relations today. The results of their work are sufficiently remarkable. Here we are encountering the so-called "explosive" effect. The successes of the Butovskiy Construction Materials Combine and the Khlyupinskiy Stroyopolimer Plant are known to many.

The lease form is beginning to conquer more and more new adherents in practically all industries, especially in the machine building complex. As of the beginning of the year, elements of lease relations are being introduced in the khozraschet activity of the Sumy Machine Building Scientific Production Association imeni M. V. Frunze.

What is attractive about the lease form of the organization of the khozraschet activity of enterprises? It secures great independence of the enterprises in the use of khozraschet income, wages, the stability of the economic relations of the lessee and the lessor, anchored in a contract for a long period—10-15 and more years, and the great interest in the effective use of the property that is being leased. But here there also arise a number of difficult problems that require correct solution. These

are the formation of a general conception of lease relations and the exposure of the socio-economic consequences of the activity of lease enterprises; the creation of an effective mechanism for the timely renewal and modernization of fixed capital, the technical development of enterprises and their financial security; the determination of the procedure for the calculation of lease payments and the progressive taxation of the incomes of enterprises; the substantiation of the dimensions of the rent payment and several others. For this reason, it is very important to work through the basic principles and the mechanism of the operation of the enterprise on lease relations on the basis of the generalization of the first experiment. Such work is being conducted at the present time and is close to completion.

We should mention still another important direction of the activation of the new mechanism in the enterprises, the increase of its efficiency—the development of intra-enterprise economic accounting. Experience shows that the new methods of management in the enterprises produce an appreciable effect where these methods are brought to the section, the brigade, and the workplace, where khozraschet principles encompass all aspects and levels of the work of enterprises, and are not confined at the upper level of management. Here is one of the examples. At the Barnaulskiy Geological Prospecting Plant of the USSR Ministry of Chemical and Petroleum Machine Building, the brigade of the press-forging section numbering 40 members was transferred to the brigade contract as of April 1987. During the time of the work on the contract, the brigade lowered the expenditure of materials per 1 ruble of production by 21 percent, increased labor productivity by a factor of 1.5, economized 106 tons of metal, released 11 auxiliary workers; in so doing the average wage of the workers increased by 54 rubles a month, or by 20 percent. In the brigade, every fourth worker combines professions.

There are other examples. But these are only examples; they do not yet form a system. Meanwhile, it should be clear: not having organically coordinated the new methods of management with intra-enterprise economic accounting, it is impossible to count on a growing, stable effect.

The new model of the vital activity of the enterprises is by no means exhausted by the principles of khozraschet and self-financing. Its organic part and most important component is self-management as the basis of the democratization of life in the enterprises. Since the beginning of 1988 the process of the formation of the organizational structures of self-management is under way. During the first 6 months, about 140,000 councils of labor collectives have already been elected. Their membership includes more than 4.5 million workers. Many soviets have actively joined in the work. But there are also those which do not yet fully realize their powers, do not examine carefully the affairs of the enterprise,

limit their activity only to social questions and frequently attempt to solve them in isolation from practical economic and production successes.

An important influence on the democratization of the life of enterprises and the increase in the responsibility of managers is exerted by the election of enterprise managers on a competitive basis. As of July 1988, already more than 20 percent of the directors of all enterprises were elected on a competitive basis; as a rule, they are extremely energetic in getting down to business and they are attaining good results.

Thus, the analysis of the first results of the realization of the economic reform indicates the strong points, basing ourselves on which we should further develop and deepen the mechanism of khozraschet in enterprises. This is, above all, the creation of conditions for the acceleration of the development of the second khozraschet form and lease relations, as well as the introduction of intra-enterprise khozraschet and activation of all organizational structures of self-management in enterprises everywhere. The movement forward in all these directions will make it possible to better activate the stimulating possibilities embodied in the new model of the vital activity of enterprises.

The second group of problems, which determines the effectiveness of the use of the new management mechanism, encompasses factors of a character external to the enterprises. It is on their thorough elaboration that the stimuli of self-development in many respects depend. First of all, these are the factors of the new economic mechanism whose effectiveness is determined by the activity of the ministries and central economic organs. As is well known, two questions attract the greatest attention here: state orders and economic norms.

It is a well-known fact that in the determination of state orders for 1988 serious miscalculations were permitted, which fettered the rights of many enterprises in production planning. In the plan for 1989, in accordance with the Provisional Statute on the Formation of State Orders a certain step forward was taken. From purely quantitative positions, this looks as follows. In machine building the ratio of the state order was reduced from 86 percent in 1988 to 25 percent in 1989; in the chemical-forestry complex—from 87 to 34 percent; in light industry—from 96 to 30 percent. On this basis the independence of enterprises in the formation of the production program, and thus in the realization of their rights, is expanded.

Nevertheless, the problem of state orders, naturally, is not exhausted by the measures that have been taken. It is impossible not to take into account the fact that the introduction, into material distribution practice, of the so-called consumption limits the real possibilities of the enterprises for the independent disposal of production being formed beyond the limits of the state order, and thereby, as it were, depreciates the freedom of maneuver,

which arises in connection with the quantitative limitation of the dimensions of the state order established in their plans. Accordingly, the measures that have been adopted can be regarded as transitional ones—they are also called temporary ones. It is necessary for the USSR Gosplan to continue this work in order to develop the kind of ideology of the state order and the technology of its formation that would more fully reflect the idea inherent in the new category of planning. The problem goes beyond the limits of the quantitative optimization of the measure of the state order, encompassing in the solution the questions about the role of the consumer in its formation, the development of competitive principles in the distribution of the state order, and, of course, its attractiveness for enterprises.

Another urgent subject is economic norms. It is well known that, in the determination of the initial data for their formation, there were a number of restrictions, and the chief ones among them are the indicators of the limit of capital investments and contract work, and the proportions in the distribution of financial resources that were set forth in the 12th Five-Year Plan. What is more, even the method of the transmission of the economic norms was not properly worked out. For many enterprises, they were mechanically individualized by years of the five-year plan with all the defects resulting from this. As is well known, this called forth justified criticism on the part of the enterprises and the economic community.

In 1988 the matter was corrected, the norms for the years of the five-year plan were averaged, which produced a certain positive result. But the negative reaction from the provinces to the difference in starting conditions for the formation of norms was preserved. The enterprises constantly made claims in regard to the unequal dimensions of the norms for deductions into the funds for the enterprises. In connection with this, a scheme was proposed for the distribution of profit that is received above the initial data for all enterprises, irrespective of the industry in which they operate, in accordance with a single norm: 70 percent remain at the disposition of the enterprise, 30 percent are deducted into the budget. To some extent, this removed tension that was called forth by the differences in the norms for individual enterprises.

But with all the negative aspects, we should also see something else. A principle of the stability of norms has begun to work. The enterprises have felt this. As a rule (with the exception of some cases because of the unrestricted actions of ministries), the norms in the formation of the 1989 plan were not revised, which adds great stability to the work of the enterprises and opens up the stimulating possibilities embodied in their *khozraschet* activity. Nevertheless, the problem of economic normatives remains one of the acute problems, and it must be solved in the development of the draft plan for the 13th Five-Year Plan.

At the present time, work on the determination of the bases for the formation of the economic norms for the coming five-year plan is being done by Gosplan together with other ministries and departments.

The main thing consists in strengthening unified approaches to all enterprises in the formation of the entire block of economic norms, to increase their stimulating role, and to work out the ideology and technology of their construction so as to transform the norms in actual fact into one of the chief supporting structures of the new mechanism of management.

Another, as it were, external problem for the enterprise, which is connected with the development of *khozraschet*, is the linkage, at the time of the introduction into practice, of the system of self-financing and the development of the wholesale trade. It is necessary to clearly imagine that the task of the realization of the ideas of full *khozraschet* and self-financing in many respects is related to the scales and rates of the development of wholesale trade. And today it can be stated: the active operation of *khozraschet* in the enterprises is held back by its inadequate development.

There are many reasons here. Among them one can include the presence of large disproportions in the national economy, and, to a certain extent, the fear of the ministries and economic departments to let out of their hands the threads of control of the movement of material resources, and the lack of the thorough development of an organized mechanism for distribution. Mention should also be made of the inadequate development of the horizontal relations in the national economy (and in many cases—simply their absence) and the imperfection of the price mechanism. For this reason, proceeding from this situation, it is extremely important to develop a clear-cut strategy for the development of wholesale trade and to determine the parameters of the development of this form of material-technical provision in the years immediately ahead.

Such work has now been conducted. It is well known that in 1988 the volume of wholesale trade is estimated in the amount of 40 billion rubles. In the current year, in accordance with the decisions that have been adopted, it should reach 115 billion rubles, and in 1990 it is planned to bring it to 200 billion rubles. However, this process is still going very slowly; the organizational system of its construction is still not fine-tuned. In a number of cases, that which is today called wholesale trade is far from the idea which is inserted in this economic category.

Meanwhile, the problem of the development of wholesale trade is increasingly making itself felt and, unfortunately, strengthens the contradictory principles in the development of the new economic mechanism. On the one hand, the introduction of *khozraschet* and the granting of large resources to enterprises, as it were, dictates the development of wholesale trade. But already today

increasingly more balances of unused financial resources are accumulating in the enterprises, which it does not seem possible to fully materialize.

On the other hand, the tension of the material balances and, in terms of many positions, their deficit naturally require the centralized management of this process and limit the free access of enterprises to resources. This, evidently, is the real contradiction of life, and in the long run it may intensify. The accumulation of money in the accounts of enterprises can weaken the interest of enterprises in their earnings and accustoms them to the wasteful expenditure of funds. For this reason, the problem of the development of the wholesale trade and the materialization of funds which the enterprises have at their disposal is today one of the most important problems in the further intensification of the development of the economic reform.

Thus, the distinctive combination of internal and external factors determining the activity of the enterprise in the present stage of the realization of the economic reform, the lack of thorough study of its individual elements and the lack of comprehensiveness of their introduction create on the whole a very difficult and contradictory situation in the development of the new management methods. It gives rise to new problems, which require a profound analysis and understanding of their nature. Here are some of them.

Frequently the enterprises in the conditions of the substantial expansion of their rights in the formation of the production and financial program in the stage of the development of the plans appreciably understate their indicators by comparison with the dimensions envisaged by the initial data (control figures). Their recurrent plans, more precisely, in terms of commodity production, profits prove to be significantly lower than the control figures. We encountered this during the development of the plan for 1988. Thus, in terms of profit, the recurrent plans of the enterprises proved to be lower than the initial data by the sum of more than 5 million rubles. At the same time, the actual profit being expected for the year exceeds the initial data by approximately 10 billion rubles. In 1989, in the stage of the formation of the plan, the ministries on behalf of the enterprises again lowered the plans for profit.

An analysis of the reason for such conduct of the enterprises reveals, above all, the lack of thorough study of the economic mechanism itself. The point is that the economic incentive funds of the enterprises are formed from actually obtained profit, or income, and at the outset they can fearlessly lower the plan, since in the case of its overfulfillment they will receive theirs according to fact. Frequently this is explained also by the difficulties with the material provision of the plan, which are now perceived more acutely by the enterprises. If the enterprise, during the stage of the development of the plan (objectively, but somewhere, perhaps, also preconceived) perceives its plan as imbalanced, it tries to lower

it, for the penalty for non-delivery of products may prove to be greater than the increase in profit, if a more stepped-up plan will be adopted and not fulfilled. Such are the internal springs that form such a position of the enterprises in the course of the development of the draft plan. Such a situation compels us to deeply and seriously ponder and draw up a mechanism for counteracting such conduct of the enterprises, for we are not only talking about lowering the plans for profit, but also about the introduction of production capacities.

The next problem that we have to encounter, in analyzing the activity of enterprises, is the tendency to the earning of funds through the unfounded increase of prices and the removal of cheap articles from the assortment.

Unfortunately, this practice is not a new one for our economy; it took place before as well. However, the new economic mechanism, as it were, strengthened the aspiration of the enterprises to earn funds in such a way. Many of them abuse the practice of contract prices, which in and of itself is progressive, and, utilizing their monopoly position, impose a high, unfounded price on the consumer. Simultaneously, the process of the removal of cheap products is also proceeding.

These processes should be carefully investigated, for they are of exceptionally great significance for the correct elaboration of the mechanisms that counteract the indicated tendencies in the activity of enterprises, and if we speak from broader positions—the mechanisms of the management of the socialist market.

We have embarked on the road to commodity-money relations, and this is the correct direction, which is called upon to activate market relations in the national economy, open up scope for the initiative of enterprises, and train them to work for the consumer.

But one should imagine distinctly that the market in this form, which carries in itself not only negative, but also positive charges, has not yet been formed by us. In these conditions, the aspiration of the enterprises to obtain profit in, as it were, roundabout ways, are [as published] at first inevitable, although, of course, it is difficult to imagine sterile profit in the market mechanism. But we should find methods of exerting influence on the market and on the conduct of enterprises, so as to exclude the possibility of their obtaining unearned, and in a number of cases, also "speculative" profit. Today we are dealing with the market of a monopolistic producer; it is narrow, if we are talking about the market of the means of production; here horizontal relations are poorly developed; in essence, no competitive principles of any kind are represented, and a mechanism of state planning and price influence on the conduct of the buyer and producer has not yet been elaborated. At the same time, we should not shift all the price "sins" to the lower echelons of management, to the enterprises themselves. The processes that take place in the sphere of price formation are

the result not only of the conduct of enterprises and their, as it were, incessant desire to obtain unearned money, but also the result of pressure, which is exerted by the upper echelons of management on them by means of gross indicators, under the influence of which they frequently inflate commodity production and profit through the removal of cheap products or the increase in prices. And it would be incorrect to exclude this circumstance, to fully shift the entire guilt to the enterprises, since we then will not find a correct and comprehensive solution of the problem as a whole.

And, finally, still about another problem—about the increasingly frequent practice of violating the correlation of the growth of wages and labor productivity by many enterprises and ministries. It is well known that in 1988 this process took on very large dimensions.

There are several reasons for such a situation. Here we are dealing with the effect of the circumstance that, in the 12th Five-Year Plan, for the first time the task was set—to increase the wage rates and salaries of workers and employees of enterprises of the material production sectors at the expense of the internal means of the enterprises themselves, practically not allotting additional funds from the budget. In order to present the scale of this action, let us say that, if the old approach had been preserved, then, at a minimum, 14-16 billion rubles from budget funds would have been required.

How did the enterprises act in these circumstances? They began to set aside and accumulate funds and more actively to go over to the new conditions of paying labor in 1988, which was one of the reasons for the violation of the rates of growth of labor productivity and wages during the current year, although it has been sustained for 3 years on the whole. Measures have been taken so as to again return to annual control over the dynamics and correlation of the growth of labor productivity and wages.

Another reason. In the five-year plan, the material incentive fund in the balance of the incomes and expenditures of the population was formed even before the transfer of the enterprises to the new conditions of management, and it actually in connection with the overfulfillment of the plan for profit exceeded it, which could not but have an effect on the overall growth of the wage fund.

Further, banking control was somewhat lost. In their turn, the ministries practically withdrew from the analysis of the economic activity of the enterprises.

Nevertheless, the situation that developed had a negative effect on the general state of money circulation in the country and is weakening the *khozraschet* stimuli of the growth of labor productivity. For this reason, a number of measures were taken which should prevent the possibilities of the violation of normative correlations in the

growth of labor productivity and wages in the subsequent years of the five-year plan. In the long run it is necessary to actively link up the tax methods as well.

In the new economic mechanism, the necessity of having an active tax system is being felt to an ever greater extent. Unfortunately, for the duration of many years, our financial system practically wasted the experience of tax management. Moreover, the experience of taxation we had carried more in it, so to say, the charge of restriction and contraction, of this or that activity. Meanwhile, there is a very strong aspect in tax policy—the stimulating aspect. And here, unfortunately, we do not yet have sufficient experience and knowledge. It is necessary to accumulate them; otherwise, it will be very difficult to move ahead in the management of the national economy with the new economic methods.

In short, in the course of the economic reform it is necessary to encounter new, complex processes. They must be analyzed, and we must find ways of solving them, without shirking before difficulties; we must go along the path we have chosen, but by the method of “trial and error,” and relying more strongly on science, and, above all, on economics. It must be said directly that many difficulties are connected with the fact that sufficiently reliable scientific conceptions are not yet available in all directions. The foreruns which the science of economics had at its disposal have in many respects been utilized, and today the scientific underpinning of the reform does not always keep up with the practice of its development. Moreover, now all the time, new proposals, actions, and an explosion of initiatives are coming from the provinces. For example, it was precisely from below, not from above, that the lease form was conceived, and not only in agriculture, but also in industry. It was from below that the first shares were issued and that joint-stock enterprises arose. And we did not turn out to be very well prepared for how to build lease relations, by what criteria to determine rent, and how to manage shares. Now the development of even such a complex and multi-faceted problem as territorial *khozraschet* is being carried out. In the work on it, its weak theoretical and methodological basis is being acutely felt. All of this indicates that the problem of the scientific underpinning of the reform acquires an increasingly urgent significance and requires a significant activation of economic thought.

There is also another problem—the economic and psychological unpreparedness of many economic managers and the personnel of enterprise workers for the work in the new conditions. Many of them for years got used to check every step with an extensive range of directive tasks and with beforehand established provisions of numerous instructions and rules. And, having received the long-awaited independence, they do not know how to act and what to do. We must rely on our own economic and management knowledge, and many are lacking in them. There is also a shortage of the requisite enterprise,

riskiness, initiative, and the ability to accept responsibility. For this reason, the questions of the thorough economic preparation of our cadres are advanced to the foreground today.

The reform inevitably gives rise to new phenomena, creates another, unusual economic atmosphere of the life of enterprises, breaks the conceptions and criteria for assessing the activity of enterprises and their managers that have developed for years, and changes practically all the instruments of production management. And it is important for our economic cadres to learn to manage production not only with the usual categories, but also with the aid of new categories, such as the market, profit, prices, credit, taxes, norms, the contract, and, of course, to learn to value their word.

Thus, today we have not only a general conception of the principles of the reform—it has begun to take root, it is beginning to operate in practice. In this lies the essence of the moment we are experiencing. Of course, the reform does not yet carry a finished, systematic form, it contains in itself the elements of a transitional period. Hence many contradictions, difficulties, and the necessity of searching for the solution of the problems that arise: theoretical and legal, practical and organizational. But the main thing consists in the fact that the development of the reform has been given a powerful push, and there is no alternative to this process. There is a great deal to do in the next 2 years. The task consists in entering the new five-year plan with a well-adjusted economic mechanism.

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### **Shatalin Favors Higher Output Over Monetary Reform to Halt Inflation**

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[Article by Academician Stanislav Shatalin: "How to Treat the Illness?"; first paragraph is source introduction]

[Text] In the article, "Diagnosis: Inflation" (*OGONEK*, No 51, 1988), Yakob Liberman touched on one of the fundamental aspects of our social and economic development. It is that greater attention must be paid to an objective examination of such an economic phenomenon as inflation—its causes, the mechanism of its occurrence, and the factors involved in overcoming it. I am not offering still another article that will cover all the problems presented by Ya. Liberman, the more so that I partially agree with him. But in continuation of the discussion that has been started, I want to share my thoughts. And so, in accordance with procedure.

Yakob Liberman is trying to solve the problem of inflation as it relates to himself—in terms of financial and monetary relationships—and is pinning his hopes

on monetary reform. As if all the strength of the mechanism for utilizing production resources effectively came from it. First a question: what does monetary reform have to do with the standard of living? Does it lower it, raise it or leave it unchanged? Professional economists, including Ya. Liberman, answer unambiguously: it usually reduces it. Unfortunately, retail-price reform can play the same or even a larger role. Even when assurances that no one will suffer have been proclaimed. One can truly say that this task is like that of squaring the circle. Or of searching for the philosopher's stone. Right now we have at our disposal neither the computers nor the system of mathematical equations that will solve the problem. And here, I think, our positions coincide.

Yakob Liberman writes further: "Right now the populace's current income, together with savings built up over past years, greatly exceed annual purchases (retail commodity turnover and consumer-paid services). This means that the public, on the average, has been provided for, for some years ahead, by current income and past savings, and this means that it can, during this period, preserve its standard of living even if it does not work at all.... Well, this is a clear surplus!

In any developed country of the West, current income plus savings substantially exceed annual purchases, but everyone works and, if results are compared, rather effectively. But to live without working for a few years is impossible, even here in the USSR. The more so in the USSR! Let us estimate, albeit roughly: retail turnover in 1987 was 350.7 billion rubles, customer-paid services 53.6 billion rubles; current income of the populace: wages 313.6 billion rubles, pensions 51.7 billion rubles, stipends 2.7 billion rubles, and aid 15.2 billion rubles; and monetary savings in Sberbank [the Savings Bank] 266.9 billion rubles, in bonds and personal insurance policies 40.1 billion rubles. It can be said that these data do not reflect the populace's savings, which are put wherever one likes—in money boxes, stockings, and the pocket—but not in savings banks. According to the specialists' assessments, there are tens of billions of rubles of such money. But the services of the shadow economy have not been considered here, a sum that comes to about 20 billion rubles. The output of cooperatives in 1987 was almost 400 million rubles. For the readers' information, the figure was more than 2.6 billion rubles for 1988.

And so if one quits work, then a monetary flow that was concentrated at the consumers' market in 1987 (savings, pensions, aid and stipends) was about 400 billion rubles, and the offering of goods and services (retail commodity turnover, consumer-paid services, including the output and services of cooperatives in the shadow economy) was 424.7 billion rubles. As is apparent from these figures, the public can quit work for only one year if it is to pay for retail commodities and paid services.

The author's proposal to abolish all free social and cultural benefits (medical service, education, and so on), to curtail financing thereof through the budget, to divide

the whole sum of subsidies and of budgetary financing strictly among the populace's monetary income, and to transfer the social and cultural sphere to full economic accountability, shifting everything correspondingly to the jurisdiction of normal market relationships, is a radical one.

The false freeness of benefits is completely paid for by work that is not paid for. And that is why, many years ago, we were simply deceived. "That which is free," our author continues, "is not manna from heaven but 'ordinary bureaucratic distribution....'" We shall not reproach the author for the fact that he has completely devalued the word "distribution," but one should not reduce all arguments to the pronouncement of this magical word.

Let us return, however, to nonpayment for various benefits—this "ordinary bureaucratic distribution"—which should forever be abolished by economic accountability and the market. How small our knowledge still is, how shallow is our thought, and how deeply entrenched in us are idolatry and social, economic and political paganism. I personally would not be surprised if tomorrow someone proposed to transfer USSR Gosplan to full economic accountability and to include its product in normal market relationships. The radicals want even more. Heaven forbid that they transfer conscience to economic accountability and sell and buy it on the market. Let it always remain an "ordinary bureaucratic distribution"!

I shall cite Ya. Liberman: "A principle of socialism asserts: there is but one criterion for distribution—King Work. Under free distribution, labor turns out to be in the position of a slave." Everything according to work—is this not the requirement of La Salle's unreduced income?

Is accumulation, which helps the economy to grow, really distributed according to work? Do those who would like the leading principle of socialism to be distribution according to the work done really deny free or preferential benefits, that is, distribution on the basis of social consumption funds? Let us assume that an operation is done for free—this also is "ordinary bureaucratic distribution" in the presence of slave labor? And if the free or preferential granting of benefits exists in Western countries, does this mean that they have adopted slave labor while King Work remains ours?

It has been proposed that we determine strictly and equitably the amount of budget financing for branches of the social and cultural sphere. Well, this is "ordinary bureaucratic distribution" to the greatest degree. If it is started right now, I would receive, according to the proposed formula, money for incomplete and complete intermediate education, for higher education, and for graduate training. But perhaps I would lose on public health. Thus, after weighing all the pluses and minuses of this strictly equitable distribution, while you are looking

the free benefits are renounced. Thus we play a cat-and-mouse game with the West: it increases the amount of "ordinary distributions," while we voluntarily dismantle ours. And in so doing we fall prey to an ordinary illusion: as soon as the social and cultural sphere is transferred to full economic accountability, the bribes and the bashful gifts and presents disappear. But even this is not enough for the author. Punning elegantly, he considers that what we need is not payment-free, but bribe-free services, for the former exist in the current foul bureaucratic sphere. Money does not smell, said *Vespasian*, introducing a tax on latrines. An excellent antithesis of the "ordinary bureaucratic distribution." Only it is not clear that normal market relations must be included here.

I ask, reader, that you understand me correctly. Not everything said above means, of course, that I defend the current social and cultural sphere. Even earlier than the whole economy did it fall into a deep crisis, and getting out of it will be extremely difficult. And there is a host of reasons for that. There are the residual principle of the division of resources for its development, the ineffective use of the resources that exist, a deeply rooted bureaucratism in its development, which, it appears, is prepared to preserve itself, and so on. Payment for certain social services is agreed with but with freeness coexisting with it as the main principle of its development! One must not be offended by the fact that a vehicle does not run because there is no gasoline in its tank. How can one not agree with Ya. Liberman, who reduces social guarantees to the supplying of rubles? Although, of course, this is one of the most important parameters of effectiveness.

But nevertheless, the most disgraceful distributions are the budgetary subsidies. After this emotional statement, there should be clarification: subsidies must not be given to producers, only to customers! This is rational and on this basis the growth of subsidies can be stopped. And subsidies to producers do not stimulate an increase in production or in its effectiveness. Of course it is difficult to be a prophet in one's own country. But for the sake of comparison it must be said that the West uses both the one and the other! And this is how it should be. But how is it possible, without an increase in production and its effectiveness, to stop the growth of subsidies by means of subsidies to customers? Or do we reject the idea that the main means for overcoming inflation, stagflation and deflation is production? Well, and how is the matter of customer subsidies going? With the necessity for granting privileges and aid to the needy? True, at the end of the article the author tried to taxi on an asphalt road. Incidentally, it must be said that if the most disgraceful distributions are budgetary subsidies, then the article about inflation would have to say something also about the exact opposite of subsidies—the turnover tax! Prior to the "alcohol reform" it was a GREATER amount than the subsidies.... True, right now a contrary trend has been noted.

And there are still several comments on Ya. Liberman's positive program. "What burdens us today is not so

much the high prices relative to income as the unconquered difficulties in the capacity of money to buy goods. Under these circumstances, to artificially brake the growth of income and prices means to impede an acceleration of social and economic development...." One of the main prophets of the country's plans for economic and social development is an excessive orientation to the statistically average man.

Well, and how are things going with the artificial freezing of incomes and prices (retail prices must be presumed)? It stands to reason that in economics, as in other spheres, one must not do anything artificially. It must be agreed for the sake of truth that often we ourselves do not know what is artificial and what is natural. In opinions regarding the reform of retail prices, we apparently agree with Ya. Liberman. As for income, the matter here is more complicated. For it is clear that in the course of many years, we actually have artificially raised the level of incomes, and their dynamics—the longer the greater—were of a clearly inflationary nature. Incomes often were symbols of air. They were completely detached from the actual results of work, they were often adjusted to an "acceptable" level. People were paid simply for being present at work. This is precisely why it is that it is not an artificial freeze that is necessary but a natural conformity with growth in output and services. But the main thing in conquering inflation is an increase in the production of goods and services, and a sharp rise in their quality and an expansion of their variety are necessary. In order to do this, there should be a finely regulated market, a well thought out distribution of budgetary subsidies, and a reduction of military expenditures and of resources that are spent on space research. Enough of going without trousers but wearing a hat!...

The author finished with pessimism the article about overcoming inflation: one does not overcome the gathering force of inflation quickly. What, then—become reconciled to it, as with unstable weather, when one changes umbrellas, depending upon what the weather is like today—rain or sunshine? And should one not reorient socially to economies, increase production of goods and services, and, what is more, raise their quality? The growth of monetary income must and can be controlled, the budget improved, and the structure of investment policy bettered. Much can be done!...

In conclusion, I would like to make a general comment, based upon a study of the enormous journalistic literature of the perestroika period. Much of it is good. But there is also a lot of foam and an apparent desire to become popular, often at the expense of scientific truth. The stage of the lightning cavalry attack, I should like to believe, is a thing of the past. The age of professionalism, competence in elaborating problems of the social, economic and political development of our society, which are severe and still unresolved, has arrived. By no means out of coquettishness, I fully include myself when I say that there is a strict requirement for increasing competence.

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### **Joint Stock Intersectoral Bank Functioning Described**

18200168 Moscow IZVESTIYA in Russian  
25 Jan 89 p 3

[Article by M. Berger under "Details for 'Izvestiya'" rubric: "A Bank That Buys Debts"]

[Text] **The Joint Stock Commercial Bank for Intersectoral Integration, established recently as part of the first MGO—Intersectoral State Association "KVANTEMP" (head enterprise is the NPO [scientific production association] "Kvant")—in Moscow and the third in the country, deals with this strange matter for the uninitiated.**

Much can be said about the MGO's, a structure still unique in our economy. They differ not only from everything that has existed and does exist in our national economy but each of the three associations—"Energomash," "Tekhnokhim" (Leningrad) and "KVANTEMP"—are dissimilar. But they do have in common, above all, the fact that the enterprises joining the intersectoral associations on a voluntary basis at the decision of labor collectives are no longer subordinate to ministries and are themselves responsible for organizing their own work and its results. In essence, they are state concerns with a great future, in the opinion of specialists.

The three MGO's have different bylaws and organizational structures. "Energomash," for example, set up its own arbitration, which "KVANTEMP" does not have. On the other hand, here they have the Joint Stock Commercial Bank for Intersectoral Integration, the only one of its kind. One can read more about the MGO's in one of the articles in the first issue of "Pravitelstvennyy Vestnik." We will look only at the work of the Joint Stock Bank, established as part of the Moscow MGO "KVANTEMP," for precisely finances, as everyone knows, are the basis for the economic methods of management that we talk so much about.

E. Tsey, director of the Krasnodar Machine Building Plant imeni Kalinin, part of the MGO "KVANTEMP," was quite surprised at the proposal of his Joint Stock Bank, where he went for advice on some financial problems of the plant. As help for its client, the bank expressed the desire to acquire the debts of the plant's customers—734,000 rubles.

What economist is not familiar with this serious—like a toothache—problem: the exacting of money from an insolvent partner? And it is vexing when you fulfill your contractual obligations precisely on time and you sit without money because the customer has no means to pay. But it is necessary to acquire raw materials and pay wages—in short, to continue to live and work but the problem is that the sins of others "do not allow it."

The bank proposed to the plant that it settle with it for all of its debtors, taking over the contractual obligations of its insolvent payers. This was not done out of generosity, even though the bank is wealthy: its statutory fund, made up of the shared contributions of stockholding members of the MGO, amounts to 15 million rubles. Departmental interests play no part here. The commercial bank was motivated, as it should be, by commercial interest.

"We carried out the most ordinary—but almost forgotten in our banking practice—factoring operation with the plant imeni Kalinin," relates G. Letunov, deputy chairman of the board of the Joint Stock Bank. "Having paid our client 99.5 percent of the sum that the customers owed (the half percent is the customary payment for this kind of operation), we supported its financial stability, upon which depends the plant's fulfillment of the profit plan and, accordingly, the maximum formation of economic incentive funds. We also gave a respite to the indebted buyer and made a profit for ourselves. Besides the half percent from the amount of the debt, we also received the right of punitive sanctions due in the event of a further delay in the payment of debts."

In the first month of its existence alone, the bank carried out factoring operations amounting to 5 million rubles, thereby earning about 50,000.

This, of course, is not the only and not even the main function of the Joint Stock Bank for Intersectoral Integration. It does not terrorize its clients by gathering formal information and numerous reports. Its task is to make an in-depth economic analysis of production and market conditions and, on this basis, to give the appropriate recommendations. The bank is no less interested in good final results than its enterprises, for the greater are their resources and the larger the sums in their accounts, the greater are the possibilities of the bank.

The bank pays significantly higher interest rates than specialized All-Union banks for the custody of money that it accepts not only from MGO enterprises and the stockholders are guaranteed up to 9 percent profit on their share.

The commercial bank finances the development of the priority directions in the production of its stockholders and scientific developments from basic research to industrial series, which is especially important in the kind of science-intensive production that "KVANTEMP" deals with.

An important feature protecting the bank against foolish arbitrary and administrative interference is the democratic principle of management. The highest administrative body is the general stockholders' meeting and the number of votes that one stockholder or another has depends upon the size of the share. The bank transfers the largest part of the profit to its stockholders, just as a joint stock company is supposed to do.

Thus, there is now an alternative—the MGO—to the ministerial principle of management and the operational specialized banks have strong competition.

We will see what the development of events will bring.

### **Economic Legislation on Cooperatives, Leasing Fails**

18200175 Moscow SOTSIALISTICHESKAYA  
INDUSTRIYA in Russian 18 Jan 89 p 1

[Article by V. Yakovlev, director, Institute for Soviet State Construction and Legislation at the USSR Supreme Soviet, doctor of Juridical Sciences: "A Law on Laws, or Why Economic Legislation is Hindering Perestroika"]

[Text] As long as economic and business relations in society are normal, we think about laws as little as we think about the air we breathe. We turn to them only when there are breakdowns and violations of laws and interests. This is natural. But it is not natural when such violations become so frequent that they almost become normal, when appeals to the law do not always help in restoring justice.

We have already become accustomed to the almost daily disruption of schedules for industrial construction. This does not always even result in fines on the builder, to say nothing of compensations to the client for losses from delays in starting up shops, roads and cleaning facilities.

One could give many examples more familiar to us. Thus, a certain M. signs, with the "Podmoskovye" Cooperative, a contract to build a garden house and advances 6,000 rubles. However, the work in the contract is not completed within the stipulated time. The cooperative is liquidated and there are only about 400 rubles in its bank account. The client cannot recover his money. All other clients of this cooperative are in the same position.

Who doesn't know the ordeals endured by purchasers of low quality complicated equipment sold in state trade networks. Such cases are not exceptional, they touch upon the interests of many consumers.

Naturally, one automatically asks: How good is economic legislation if it does not support normal economic relations and the reliable protection of the rights and interests of the main figures in these relations—consumers, customers and clients?

This question is all the more natural during the present revolutionary transformation, which can only be implemented through law. Perestroika in the economy has revealed not only partial, but general distortions in existing economic legislation and its inability to handle new tasks.

It is sufficient to point out the unpreparedness of legislation to handle relations in leasing land and other means of production. It is still completely incapable of supporting and consolidating genuine independence for state enterprises.

What are the main distortions of existing economic legislation?

Above all, it is essentially administrative legislation. It was formed during the reign of the administrative-command system and continues to consolidate this system. It is no accident that those parts of the law which should have a leading role in the regulation of normal economic relations have been driven out into its backyard. This applies to civil law, the regulation of property relations and commodity and monetary exchange, and to laws on finance, labor, resource conservation and ecology.

Moreover, the administered nature of our economic legislation has led to a situation where, essentially, laws are minuscule in volume and actual importance compared to legally binding, primarily agency acts, which continue to be the main regulators of economic relations. In spite of the widespread opinion that we have strict state control over the development of the national economy, everything here has been farmed out to ministry apparatuses. Therefore, it is not surprising, that in solving specific problems, such as determining the procedure for exchanging low quality goods, priority is not given to customers' and consequently, society's interests, but to those of the producer and its superior agency.

For 70 years our administrative law has developed so that there are even widespread acts by individual administrations, which are now engaged in the modern, fashionable creation of numerous normatives, state orders and limits. It is through these that superior organs continue to dispose of enterprise production, incomes and finances, although labor collectives have just barely switched to cost accounting and become independent. This is why our producers continue to work not for the customer, who has little influence upon them, but for indicators and evaluations from above, attaining the same good normatives and limits.

An elementary observation of economic order, the only possible basis for cost accounting, requires that any distribution of incomes—the most important economic relation between enterprises and society—be regulated not by individual normatives (they are clearly senseless, as a norm is a general rule), but at the level of law. It is a different matter for legally set normatives for allocations of enterprise resources to public needs, taxes for example, to be differentiated by economically based criteria.

Finally, there is another shortcoming in our economic legislation—its vast volume. This objectively follows from the complete freedom of legislation. Today there are still tens of thousands of all-union normative acts

made by higher legislators and authoritative organs throughout the country, and apparently hundreds of thousands (no exact count) agency acts. All these have been piling up for almost 70 years. Naturally, nobody can orient themselves in such an ocean, anyone can drown.

Of course, new laws about enterprises, cooperatives, individual labor activities, government decrees on foreign economic ties, individual subsidiary operations, individual and cooperative residential construction and other acts are making marked changes in economic legislation. It is being updated and shortened.

Of course, the partial revocation of many previous normative documents as they are being made compatible with new laws often only complicates matters. The acts turn out to be "full of holes" and now it is difficult even for specialists to understand which parts are active and which not. We have not broken up the system as a whole. Our economic legislation still remains administrative.

This is easily seen in the Law on State Enterprises. Its ratification should have completely emancipated labor collectives. However, administrative elites still have enough tools to completely negate collective independence. It is no accident that many enterprises are now raising the question of leasing. Many see in it the possibility of getting out from under ministerial and agency micromanagement, something the law has not made possible.

Well, leasing, that's good. However, as a lawyer, many things are still not clear to me. Who acts as the lessee? The collective? But the makeup of the collective changes. Who will be responsible for unprofitable economic activities?

Here is another question. Suppose that the lessees purchase fixed productive capital and are thus actually transformed into a cooperative. This means that each worker possesses part of this enterprise. Should a worker be paid for this if he quits his job?

Of course, in time we will solve these questions. All the same, I think that state enterprises will continue to exist, for example, in heavy industry or the defense industry. This means that we cannot avoid radical perestroika in economic legislation. This will be a decisive factor for further progress in economic reform.

In my view, this work should begin by preparing and ratifying the Law on the Basis for Managing the National Economy. Undoubtedly, it will be extremely difficult to create such a law. This would help clarify the nature of state administration under the new conditions. So far, there is complete confusion here.

The new law would show how many ministries are needed and what they should represent. Here we are also groping along, making disconnected moves to the left and the right.

Of course, a Law on the Basis for Managing the National Economy would make it possible for us to drastically update all economic legislation and free other areas of law from administrative oppression. This would help protect customers' interests.

There is also a need to bring order into legislative activities, precisely delineating and determining the competence of all-union, republic and local organs, ministries and agencies in regulating economic relations. Possibly, it would be worth it to fix all this in a special law on the procedure for making and ratifying normative acts. This would be a unique law on laws.

### Vladimir Tractor Factory Issues Stock Shares

#### To Raise Capital

18200170 Moscow IZVESTIYA in Russian  
26 Jan 89 p 1

[Article by IZVESTIYA correspondent A. Yershov, Vladimir: "What Do the Workers Get When They Buy Stock?"]

[Text] *The Vladimir Tractor Plant Association has made an unusual decision—to begin issuing shares of stock. Their cost to association workers is 50 rubles. The cost is higher for enterprises: 10,000, 25,000 or 100,000 rubles.*

"We thereby hope to attract the private savings of our workers, as well as the available funds of allied enterprises," said association General Director A. Grishin. "What has brought about this 'self-credit'? Last year we fulfilled our deliveries plan by 100 percent and covered the profits plan. But we were let down by some of our customers, who did not pay their accounts on time on tractors and engines received from us. These non-paying enterprises include the Lipetsk Tractor Plant and Dagelektromash.

"We are experiencing an acute shortage of working capital as a result. The more so as the receipt of credit from banks is now limited. We are counting on getting a loan, as it were, from our workers of 2-2.5 million rubles. Allied enterprises could bring the overall value of the stock fund to 10 million rubles. People get dividends at the end of the year in the form of 5 percent of the acquired shares."

The major portion of the stock fund is intended to be used first and foremost for the modernization of shops and the incorporation of modern mechanization, which will make it possible to increase the output of tractors, engines and spare parts.

"Today we are getting much financial freedom," added association Chief Economist I. Bakaleynik. "And we are making use of it, we intend to build a new shop for the output of consumer goods. We have obtained consent for its joint financing with the stockholders of Vladimirstroy [Vladimir Construction Main Administration]. We have in turn found it possible to transfer 300,000 rubles of foreign currency that we earn from the sale of Vladimirets tractors on the foreign market to our neighbors—the Vladimir-Suzdal Agro-Industrial Association."

#### Economist Notes Risk

18200170 Moscow IZVESTIYA in Russian  
26 Jan 89 p 1

[Commentary by Candidate of Economic Sciences B. Federov]

[Text] *The editors asked Candidate of Economic Sciences B. Federov, engaged in problems of finance and credit, to comment on the news.*

The report from Vladimir confirms the groundlessness of statements that enterprises do not want to make use of the new rights granted to them. Where there are rights, there is initiative. The Vladimir workers are beginning to make practical use of a whole series of quite recently unthinkable innovations: the issue of shares of stock (and moreover by the association and not by an individual enterprise), the joint financing of shop construction and the transfer of foreign currency to another enterprise on a mutually profitable basis.

The economic potential of new forms of economic operation is indisputably enormous, and it is important to make use of it in as studied a manner as possible. Shares of stock, for instance, really could become a material source of financial resources and aid in the consolidation of personnel and the development of feelings of ownership. But the rights and obligations of the parties must be defined as clearly as possible therein, and ambiguous treatments must not be permitted. What use is "credit" and "getting a loan" here if we do not stipulate a specific time period and the enterprise is not obliged to buy the shares back? The workers should understand that they are giving their money to their enterprise at a minimum until their retirement or discharge, that is, they are not "stockholders" or co-owners of the enterprise in the fullest sense of those words.

Have those in Vladimir read over carefully the standard documents according to which the stock dividends of the labor collective are paid from the material-incentives (wage) fund, moreover with a regard for the correlation of the growth of that fund with the growth in labor productivity? The payment of dividends, in other words, proceeds at the expense of growth in the wages of workers, including those who have not purchased shares.

It is no accident that enthusiasm among potential shareholders has diminished appreciably since the government decree on stocks (adopted in October of last year). It also should not be forgotten that the decision to issue shares for workers and the terms of that issue are determined by the labor collective itself, and not enterprise management.

The statement of the general director about the acute shortage of working capital due to the non-payments of partners also caught my attention. It is hardly permissible to patch financial holes with the aid of issuing open-ended shares of stock. Bonds with a term of 2-3 years and fixed interest rates for payment could have been issued to the other enterprises for this. Such an elementary alternative to bank credit has for some reason not been envisaged as yet. But after all, it is not prohibited!

One should think seriously about the amount of the stock issue—the issue, after all, is not only the demand for them, but also the capability of the enterprise to pay a fixed level of dividend. Who among us is analyzing the ability of enterprises issuing securities to pay and is taking upon himself the boldness to recommend the purchase of these Vladimir shares? There is always risk, and it must be taken into account. If the enterprise cannot pay even a minimal dividend for a year or two, it would ruin its business reputation for many years to come. It is thus necessary to have a careful look before beginning the issue of stock. I would like to believe that the procedure for the issue and use of securities will be further elaborated. This would conform to the tasks of deepening economic reform.

### **Rethinking Socialist Concept of Property Ownership**

18200148 Moscow *EKONOMICHESKAYA GAZETA*  
in Russian No 52, Dec 88 p 15

[Article by D. Sorokin, chief of the sector for socialist property relations of the Economics Institute of the USSR Academy of Sciences, candidate of economic sciences: "Restructuring Property Relations: Socialist Choice"; first paragraph is *EKONOMICHESKAYA GAZETA* introduction]

[Text] Questions related to development of socialist property relations and the forms of property have been covered in these articles: "Toward a Qualitatively New Centralism" (No 6), "The Economic Reform and the Forces Holding It Back" (No 7), "The General and the Personal: New Forms of Relations" (No 8), "Cost Accounting (Khozaschet): Interlinkage of Interests" (No 9), "Cooperation—An Equal Sector of the Socialist Economy" (No 14), "The Ministry and Democratic Spirit in Management" (No 16), "Full Cost Accounting: Its Nature and Forms" (No 17), "The Socialist Market: Problems and Possibilities" (No 26), "The Economic Reform as the

Foundation of Restructuring" (No 32), "Reviving the Sovereignty of the Soviets" (No 40), and "Bringing Socialist Ownership Up-to-Date" (No 45), etc.

In essence the position is generally accepted in contemporary economic theory that the existing property relations in the economy have to be restructured as an initial and basic condition for the success of the radical economic reform. At the same time, as soon as the topic of specific directions of that restructuring is raised, one encounters arguments whose thrust is exactly the opposite.

We are referring above all to the socioeconomic nature of transformations in the sphere of property relations. Restructuring is directed toward "more socialism." But it would be naive to suppose that the years of the stagnation, when the technological lag of the socialist world behind the most highly developed capitalist countries increased, had no effect on everyday thinking, including scientific thought. To be specific, this is manifested in the fact that the question is sometimes put: Is socialist property inherently capable of supporting the progress of the productive forces of the present time? And is it not better, in view of the technological spurt of contemporary capitalism, to seek directions for restructuring property relations without being bound by the "ideological purity" of the socialist choice?

The answer to questions of this kind depends on what we mean by socialist property relations. If we take them to be only those real relations which, as we all acknowledge, have been one of the profound reasons for the slowing down of the country's socioeconomic development, then the answer is obvious: Nothing good is to be expected from the reinforcement and development of those relations.

But can those relations be called authentically socialist property relations? After all, the thesis has already been formulated more than once that they were distorted by deformation, that the main trouble is the alienation of property from the direct producers, so that the latter actually figure as "hired" workers whose interest it is—like any hired worker—to obtain a larger product for less work. It has also been stated more than once that narrow-minded and narrowly departmental interests frequently predominate over those of the entire nation. That is why it would be hardly legitimate to call these relations authentically socialist property relations and on that basis to conclude that socialism is not viable.

Fine, but where are the guarantees, the doubtful reader will ask, that reestablishment of authentic socialist property relations and correction of the deformations will bring the socioeconomic results anticipated? Is it not more realistic to take as a basis the mechanisms of economic growth built on capitalist property relations since they have after all demonstrated their effectiveness rather vividly?

I intentionally do not want to dwell here on that social price which has to be paid for economic growth in the capitalist countries. In the final analysis, rather a great deal has been written on that topic, and it is hardly possible to add anything fundamentally new. How convincing all that has been written on that topic has become for social consciousness is another question.

It seems to me more important for the "doubting reader" to think about this: How is it possible in our context to carry out transformations of property relations that would comprise a nonsocialist alternative? Issue a ukase of the Presidium of the USSR Supreme Soviet? About what? About transfer of enterprises into private hands? Or perhaps granting foreign capitalists a concession to them?

And how would the people take that? The people, in whom the ideals of socialism have been instilled for more than 70 years now. The people, who overwhelmingly have a firm belief in those ideals. Imagine the people's reaction to decisions which have been proposed by some economists and whose direct result would be restoration of capitalist ownership.

There is also another side of the problem. What is the guarantee that when the nonsocialist variant of transformations of the existing property relations has been chosen, we will be able to overcome the technological lag in a single spurt and pull even with the most highly developed countries? Is a development of events not more probable in which we would join the world economic system as suppliers of energy and raw materials—a role which even now is being assigned to our economy to an ever greater degree?

And if we are to leave our children a country that is large not in the size of its area, but in its level of economic development, if we are to feel confident about their future, we need to find a mechanism that guarantees essentially higher rates of progress of the productive forces than in the capitalist countries. Only in that way can we hope for a future historically favorable to us. But such a mechanism needs a different economic base than that which capitalism has. Authentically socialist property relations must become that base.

Where did the idea of establishing socialist ownership come from in the first place?

Having emerged in the writings of the utopian socialists as the embodiment of an aspiration for socialist justice, the category of socialist property was given scientific substantiation in the writings of K. Marx and F. Engels. It was demonstrated for the first time that socialist ownership is not the result of humanity's "eternal" desire for justice, but is a natural consequence of development of society's productive forces, a condition of their further progress.

This conclusion of the scientific theory of socialism is premised on the obvious fact that large-scale machine (industrial) production cannot function normally without a high degree of coordination of the movement of all the entities in the economy. Private capitalist ownership, which gives rise to the priority of private and strictly mercenary interests, results in continual disruptions of that coordination. The result, to be specific, is economic instability, crises of various kinds, unemployment, and so on. Establishment of the necessary proportionality on the scale of social production as a whole requires transfer of the priority from private interests to the interests of society. But this is possible only if the dominance of private capitalist ownership to the decisive means of production is eliminated, so that the society of workers itself becomes their owner.

More than 100 years have passed since this principle was laid down. Has actual reality confirmed its correctness, or, on the contrary, does it need to be revised?

On the one hand, we see that the need for social control over development of the productive forces is becoming more and more urgent. As a matter of fact, the need to coordinate the movement of various entities of social production is now indisputable not only on a national scale, but even on an international scale, as a condition for the efficiency of social production, which presupposes elimination of the primacy of the selfish interests of groups holding financial monopolies.

At the same time, the need for social control over development of the productive forces is increasing in connection with the emergence of what are called global problems—ecology, energy, raw materials, food—which have essentially become problems of the survival of human civilization.

Finally, establishment of the ownership of the workers themselves to the means of production which they use, and this is the qualifying criterion of socialist property relations, is conditional upon those qualitative changes which have occurred under the influence of the scientific-technical revolution and especially its present-day (technological) stage in the human factor of production. These changes require a fundamentally new type of worker who possesses a qualitatively different technological sophistication based on intellectualization of the production process. That kind of worker cannot by definition function effectively if his social status of nothing more than a hired carrier of work power is retained. It is becoming a mandatory condition of his work activity that the worker's alienation from the conditions and results of production be overcome on the basis of his participation not only in production activity, but also in economic activity.

At the same time, although the classics seem by all appearances to have believed that capitalism was ripe for social revolution even in their time, capitalism today is preparing rather optimistically to enter the stage of

postindustrial development of the productive forces. It is this, incidentally, that is making it possible to express the idea that the conclusion that establishment of the dominance of socialist property relations is inevitable diverges from real life. But is that in fact the case?

The spontaneous regulators of the capitalist economy (the free market and free competition) departed this life around the turn of the century. And however unpleasant it might be to certain propagandists who have become skilled at exposing the anarchy of capitalist production, present-day capitalist production functions on the basis of its conscious regulation as a whole on a national and international scale by means of long-range plans (programs) for development. True, the mechanisms of this regulation are not those we are accustomed to, and frequently the goals and results are unacceptable, but it would be unreasonable, to put it mildly, to deny its effectiveness.

And how is one to deny those indubitable achievements which present-day capitalism has to its credit in drawing the workers into the process of economic management, in inculcating in them an owner's interest in the business of the firm where they work? How is one to overlook the highly developed social infrastructure put at the disposition of those same workers? Of course, it can be said that this is done in order to mask the relations of exploitation, to distract the workers from the class struggle, and so on. All of that is true, of course. But it still has to be admitted that attempts to overcome the alienation of the workers from the conditions and results of production are beginning already in capitalist society.

At the same time, these factors do not contradict the thesis of the inevitability of replacement of the relations of private capitalist ownership by social ownership, but rather reinforce it. After all, establishment of the rules of economic behavior within which individual entities carrying on economic activity subordinate their own economic activity to the needs of the movement of social production as a whole, creation of mechanisms that guarantee the observance of those rules, involvement of the direct producers in organizing economic activity essentially signify a denial of the relations of private capitalist ownership in the classic meaning of the term and a movement in the direction of socialization of production.

This movement is not occurring in the way the pioneers saw it. The time frames and forms are different. But the conclusion that establishment of socialist ownership of the means of production is an objectively necessary condition for removal of constraints imposed on development of the productive forces by capitalist property relations still possesses its full scientific significance. A political and economic social structure has to be created to guarantee consistent realization of the socialist content of ownership. At the same time, reality has demonstrated that the traditional treatment of socialist property relations, when property was above all equated with

ownership of the state, and other forms (cooperative and private) were regarded as socialist insofar as they tended to grow into state ownership, cannot serve as the basis for evolution of authentically socialist property relations. Reinforcing the objectively necessary principle of centralization within the framework of the state at the union level in regulating property relations, we should guarantee the necessary degree of sovereignty of soviets at all levels as bodies of people's self-government in their respective areas, which is particularly important in the context of a multinational state based on the principles of federation. At the same time, mechanisms have to be found that make it possible for every work collective to figure as the real master of the means of production it employs. Solving these problems requires a radical reexamination of the principles of the Constitution concerning the economic system and must occupy a central place in the framework of the second phase of the political reform of our society. Only along the road of socialist transformations of the present property relations is it possible to guarantee socialism and the country a historic chance.

#### **Publication of New Books by Aganbegyan, Others Announced**

18200185 Moscow *EKONOMICHESKAYA GAZETA*  
in Russian No 51, Dec 88 p 9

[Article by Yu. Yakutin: "For the Bookshelf"]

[Text]

#### **The Soviet Economy—A Look at the Future**

That is the title given to his new book by Soviet economist and USSR Academy of Sciences Economics Department Secretary Academician A.G. Aganbegyan.

Based on extensive statistical material and a summarization of experience in operational economic development accumulated in the country, the author relates in lively and colorful form how he sees the economy of the country in the 21st century and shows the socio-economic, organizational and technical reserves whose utilization would facilitate the economic and social progress of the country.

Brought out by Ekonomika Publishing House (Moscow, 1988, 256 pp) for a broad circle of readers, the book will be read with interest by all who are interested in topical problems of the socio-economic development of the country.

#### **The Mechanism of Economic Operation: Directions of Restructuring**

What demands of the mechanism of economic operation are made by radical economic reform? What do the lessons of past operational economic reform teach us? What are the economic conditions of the democratization of business life?

In answering these questions, the author of the book "The Democratization of the Mechanism of Economic Operation" (Moscow, Ekonomika Publishing House, 1988, 270 pp), USSR Academy of Sciences Corresponding Member N.Ya. Petrakov, analyzes the objective causes that have evoked the necessity of a revolutionary restructuring of the mechanism of economic operation, showing the role of cost levers in the socialist economy and their connection with the systematic nature of the development of the national economy.

A central place in the book is occupied with an analysis of the principal directions of the restructuring of the mechanism of economic operation as projected by the resolutions of the 27th Party Congress and subsequent plenums of the Central Committee, as well as the 19th All-Union Party Conference.

The wealth of statistical material and candid discussion with the reader about the urgent problems of the development of the economy will attract the attention of a broad circle of readers to the book.

#### **Via a Policy of Restructuring**

The book "The Strategy of Acceleration: Economic Foundations and Paths of Realization" (Moscow, 1988, 223 pp) has been put out by Ekonomika Publishing House for party and business activists, academic associates, instructors, students and graduate students at institutions of higher economic education and propagandists and attendees in the system of economic education.

The book, prepared under the general editorship of I.I. Salnikov by professors and instructors V.G. Lebedev, V.S. Dunayeva, V.I. Kushlin et al of the AON [Social Sciences Academy] of the CPSU Central Committee, sets forth in detail the economic foundations and ways of realizing the strategy of accelerating the socio-economic development of the country that have been devised by the party. The specific features of the development of contemporary productive forces and productive relations are considered, and the necessity of the utmost intensification of social production is shown. Particular attention is devoted therein to the acceleration of scientific and technical progress, reform of the mechanism of economic operation and the activation of the human factor.

#### **The Art of Management**

What lies at the heart of a contemporary art of management meeting the requirements of radical economic reform? What effect will the economic training of labor collectives have on the process of democratizing economic life?

The book "Style of Leadership and Operational Economic Restructuring" by M.G. Karpunin (Ekonomika Publishing House, 1988, 80 pp) not only analyzes topical

problems of the management of economically accountable collectives and uncovers its economic forms and methods, but also relates the experience of leading collectives in the country along with progressive methods for managing the subcontractor collective teams, sections and shops of economically accountable enterprises with the aid of extensive factual materials against a background of colorful examples of business practice.

### **PLANNING, PLAN IMPLEMENTATION**

#### **1989 Plan Calls for Balanced Development, Continued Reforms**

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22 Nov 88) pp 3-14

[Article by V. Kirichenko, professor and Doctor of Economic Sciences and Yu. Uvarov, Candidate of Economic Sciences: "Plan-89: Intensification of Economic Restructuring"]

[Text] The state plan for economic and social development of the USSR for 1989 is directed towards strengthening the positive processes taking place within the economy and intensifying its restructuring in conformity with the program of the 23d CPSU Congress and the instructions handed down during the 19th All-Union Party Conference. It takes into account the changes in the country's economic system and in the methods and forms for the planned administration of the economy, that are taking place in connection with the introduction of the laws governing a state enterprise (association) and cooperation, the spread of contractual and lease relationships, an expansion in economic rights and an increase in the responsibility of the local organs of administration.

The conditions for formation of the plan and its subsequent realization are characterized by a reduction in the number and sphere of action of indicators (including a state order) established on the basis of directives for the primary production element, by an expansion in the scales of wholesale trade (as a result, decisive importance is being attached to organizing horizontal contacts between the suppliers and consumers and to the practice of contractual relationships between them) and by a strengthening of the dependence of stable economic functioning upon observance of the economic obligations undertaken by the enterprises. Ever increasing attention is being given to developing the entire complex of the social sphere and satisfying the urgent requirements of the population as a direct goal for further economic growth and a powerful factor for raising the economic, social and political activity of workers and for the consistent implementation of the basic changes planned by the communist party in all spheres of social life.

**Rates of Growth for Most Important Economic Indicators in 1989 (in per cent)**

|                                                          | For 1985      |                          |                          |
|----------------------------------------------------------|---------------|--------------------------|--------------------------|
|                                                          | For 1988 plan | According to 5-year plan | According to annual plan |
| National income, produced                                | 3.8           | 17.8                     | 17.6                     |
| Industrial output                                        | 4.0           | 19.1                     | 18.2                     |
| Gross agricultural output                                | 2.0           | 13.1                     | 13.6                     |
| Retail commodity turnover in state and cooperative trade | 6.1           | 14.6                     | 16.4                     |
| Sales volume for paid services to the population         | 8.1           | 37.8                     | 51.6                     |
| Real per capita income                                   | 3.1           | 11.0                     | 11.4                     |

**Social Trend in Structural Improvements**

The chief distinctive feature of economic development in the year ahead—a strengthening, in conformity with the decisions handed down during the 19th All-Union Party Conference, of its social orientation. The 1989 plan calls for the five-year tasks concerned with those indicators which describe the level of national well-being to be exceeded and with fewer material and financial resources (see Table). Thus, housing space in excess of 13 million square meters above the five-year plan must be placed in operation and retail commodity turnover must be increased by 6 billion rubles and services for the population—by 6.2 billion rubles. Next year the monetary income of the population and also the public consumption funds will increase more rapidly. The latter will amount to 643 rubles per capita in 1989 compared to 612 rubles in accordance with the five-year plan. As a result of the completion for the most part of the conversion of enterprises in all branches of material production over to the new rates and salaries and also an increase in payments from their material incentive funds in connection with growth in operational efficiency, under the conditions imposed by complete cost accounting and self-financing, the average monthly wage for manual and office workers will increase next year to almost 219 rubles (or 7 rubles more than the figure computed for the five-year plan) and the salary for kolkhoz members in the public economy—to 180 rubles (also greater by 7 rubles).

The decision to achieve, in 1989, standard of living indicators for the nation which will exceed the tasks for the five-year plan, given the existing lag in the general economic resource indicators<sup>1</sup>, is based upon the acceleration embodied in the plan, compared to the current year, for growth in national income, industry and agriculture and for noticeable structural improvements.

A strengthening of the social orientation of the economy in the plan for 1989 is clearly reflected in a change in the more important national economic proportions, reinforced by large-scale improvements in the structural and investment policy. First of all, important corrections are

being introduced in the distribution of national income for the consumption fund and the savings fund. As is known, an increase in the rates of growth for capital investments, as the basis for intensifying and improving the production potential and accordingly an increase in the proportion of the savings fund in national income, was embodied in the five-year plan, while taking into account the program for acceleration adopted during the 27th CPSU Congress. The implementation of the instructions handed down during the 19th All-Union Party Conference for accelerating solutions for the vital problems of national well-being required a change in the proportions for distributing national income in behalf of the consumption fund. Its proportion in 1989, in used national income, will amount to 74.8 percent compared to 72.9 for the five-year plan.

It should be borne in mind that a substantial change has taken place in the structure of the savings fund in recent years. A greater proportion of it is beginning to be occupied by savings in the non-productive sphere (growth in fixed capital in housing and municipal services, public health, education, culture and others). In view of this fact, the overall proportion of funds to be used for increasing national well-being, in used national income, will amount to 81.6 percent in 1989, while the proportion of production savings will decline to 18.4 compared to 21.5 percent in accordance with the five-year plan.

Naturally, a reduction in the proportion of production savings and its absolute amounts, compared to the five-year plan computations, requires the introduction of considerable corrections in the investment policy, a further refinement in the priorities for the development of individual branches and sub-branches and, most important, a sharp increase in the return from investments carried out.

A question may arise: is it not possible to achieve an even greater increase in the proportion of resources to be used for improving national well-being and in this manner accelerate to an even greater degree the solutions for many social problems? The posing of the question in this manner is by no means rhetorical in nature. It is a vital question and one which is being discussed in the press. However, if we consider the status of affairs in the national economy (taking into account the clearly expressed trends, both positive and negative), then it must be confessed that further growth in the proportion of the consumption fund will be unrealistic for next year. Even the planned increase in it, and it is extremely high, requires the carrying out of large-scale structural improvements in social production which, owing to the tremendous scales of the national economy and its sluggishness, cannot be achieved on an immediate basis.

For example, let us take a problem which is considered to be important from an economic, social and political standpoint (since a solution for it could remove a certain social tension in society)—saturation of the market with non-food consumer goods. In the plan for 1989, as a result of the best use of the production potential and production by all branches of the national economy

regardless of their principal specialization, the reshaping of a number of enterprises engaged in the production of products of a production-technical nature and also the redistribution of the appropriate material resources, an increase is called for in the production of non-food goods on the order of 10.9 billion rubles compared to the tasks for the five-year plan, including products of the light industry—2.3 billion rubles worth. In the process however, industry will be unable to satisfy completely next year the solvent demand of the population.

At the same time, a further increase in the production of goods by the mentioned group and a substantial improvement in their quality require a radical reorganization of many enterprises, the construction of new ones (including the drawing in of foreign firms), an increase in the production of modern equipment for the light and food industry, improvements in their resource support, the creation of a broad market for technically complicated consumer goods and others. Programs for solving these questions have been developed and are being implemented. But this requires a definite period of time and appropriate funds from savings.

The plan for 1989 calls for a large-scale improvement in industrial production in favor of the consumption complex. A decision with regard to the leading development of consumer goods production in industry was adopted during the 27th CPSU Congress. However, owing to a number of reasons it was not carried out during the first 2 years of the five-year plan. During the 1986-1987 period, the production of means of production increased by 9.3 percent and the production of consumer goods—by 8.2 percent. This trend will be halted during this current year, with growth in group "B" industry amounting to 5.2 percent compared to 3.5 percent for group "A." Next year the plans call for a sharp change in the situation: the rates of growth for consumer goods production, compared to means of production, will be higher by a factor of 2.3 and this must not only compensate for the lag tolerated during the first years of the five-year plan but also ensure leading development for group "B" compared to the five-year plan.

There is still one proportion which reflects a strengthening of the social orientation of the economy—the proportion of capital investments intended for the non-productive sphere compared to their overall national economic volume. In 1989 it will amount to 28.7 percent compared to 23.6 percent for the five-year plan. But for describing the changes taking place, it would be best to use another indicator—the proportion of construction-installation work carried out in the non-productive sphere (since the technological structure of capital investments here is distinguished by a predominance of construction-installation work with a low proportion of expenditures for equipment). Next year, in the non-productive sphere, 47.7 percent of the overall volume of construction-installation work for the national economy will be carried out instead of 39.8 percent as called for in the five-year plan computations.

The program for a socially oriented reorganization of the national economic structure is important from the standpoint of principle rather than from the standpoint of business conditions. Actually, the priority development of the means of production over the course of many decades has led to an "increase in the weight" of the structure of social product and to a predominance in it of products of a production-technical nature. The lack of harmony in the national economic structure, the low degree of technical equipping and the inadequate capability of production operations engaged in the production of consumer goods and enterprises in the sphere of services are viewed as the chief reasons for the extended period of existence of commodity-money instability. The failure to satisfy the effective demand of the population through a supply of goods and services in the required assortment and quality and the inability of workers, in conformity with their requirements, to realize their earnings, brings about an increasing social tension, undermines the effectiveness of earlier and newly introduced material stimuli and thus it encourages sluggishness in work and other negative phenomena.

If we take into account the indissoluble link and interaction between economic and social development, then it is obvious that a maximum strengthening of the consumption complex within the national economic structure and the changes in its structure required for this purpose serve to form a strong material base for solving an important problem of perestroika—strengthening the interest of people in their work results and raising their labor and socio-political activity. This is a program of strategic importance. Clearly expressed in the plan for 1989, it must be continued up to the end of the current five-year plan and reinforced and developed in the next one.

"The social reorientation of economic development and an increase in the proportion of consumption in national income must become a pivotal point for all structural and investment policy and a cornerstone for the formation of the economic rates and proportions" it was stated during the 19th All-Union Party Conference, "Today it is clear that we require profound changes which encompass the national economy on the whole, commencing with the sphere of services and ending with heavy industry and the defense industry"<sup>2</sup>.

#### **Production Efficiency and the Material Basis for Increasing It**

A central problem with regard to validating the plans for the last few years was that of defining the sources for economic growth, under conditions involving greater limitations being placed upon the possibilities of an extensive nature—a rapid increase in the amount of resources drawn into economic use. This was especially acute in the plan for 1989. Here emphasis should be placed once again upon the need for achieving, as rapidly as possible, noticeable successes in developing the social sphere, in satisfying the urgent requirements of the

population for goods and in implementing socially oriented improvements in social production next year. There is one method for solving this problem—strengthening and further developing the positive trends in raising production efficiency based upon production intensification.

Here the first and chief factor is labor productivity. Some successes were in this area during the period of the five-year plan that has elapsed. The entire complex of measures carried out, including improvements in wages, the introduction of new rates and salaries, a reduction in unnecessary employment, an increase in the role played by incentive funds when converting over to complete cost accounting and self-financing, the introduction of new and progressive forms of labor organization and also the already started accelerated replacement of obsolete fixed capital and technological processes has actually made it possible to convert the growth in labor productivity into a decisive factor for intensifying the production volumes. In the branches of the material sphere, a question which until recently had remained unsolved, has for the most part been removed: where are the additional labor resources to come from. Material production is being developed this year not only in the absence of an increase in the number of employees but even with a reduction in their number and next year, based upon growth in labor productivity, approximately 1 million individuals will be released here. These workers and also the natural increase in labor resources (understandably taking into account the age and professional redistribution) will be drawn into the non-productive sphere and also into cooperative forms of activity.

This is the beginning of a great and very important social process: a radical change in the structure of those working in the national economy in favor of the non-productive sphere and formation of the principles for increasing the duration of free time in the future through a reduction in the working day, an increase in vacation time and others.

Another very important trend in intensification—strengthening resource conservation and converting it into a chief source for satisfying the additional requirements for material resources. Unfortunately, a considerable lag was tolerated in this area during the initial years of the five-year plan. Leading growth in the final national economic results compared to the production of and expenditures for the intermediate product, raw materials and other materials was by no means achieved. Thus, during the 1986-1987 period, the fuel and raw material branches in industry developed more rapidly than called for in the five-year plan. As a result, the material intensiveness of social production and the energy intensiveness of national income declined only to a negligible degree during the period mentioned.

In addition to the structural reason cited above, there was also one other factor—the enterprises have still not become vitally interested in economizing in the use of

material resources and they are carrying out the appropriate methods for introducing resource-conserving, low-waste and waste-free technologies in a very weak manner.

In 1989, the national economy must develop under qualitatively new conditions. The program planned for production and construction must be carried out with no increase (rolled ferrous metal, timber materials) or with minimal growth (cement, fuel) in a number of most important material resources. The proposed profound changes in reproduction relationships can be illustrated in a general sense using the following data: the fuel and raw material branches will develop at a rate which will be lower by a factor of 2 than that for the processing branches (2.3 percent and 4.5 percent respectively). Thus the material production branches will be able to function normally only upon the condition that use is made of a stern regime for realizing economies in the consumption of all types of resources. The plans call for the material-intensiveness of social product next year to be lowered by 0.7 percent compared to the plan for this current year, metal-intensiveness of national income—by 3.9 and its energy-intensiveness—by 1.4 percent.

A savings in all types of material resources represents a chief factor for achieving balance in the functioning of the national economy during the coming year.

And, finally, there is still one factor of intensification which has still not been realized in full measure—improving the use of the production potential that has been created. Similar to resource conservation, this is a vital need at the present moment. The fact of the matter is that for a number of reasons, which will be discussed in greater detail below, the tasks for placing many important production capabilities in operation were not fulfilled during the initial years of the five-year plan. This naturally requires an intensification of the workload being imposed upon the existing potential and an increase in its return.

And considerable reserves are available in this particular area. This is borne out in particular by the results of studies carried out in a systematic manner by USSR Goskomstat [State Committee on Statistics] on the use and mastering of production capabilities. Capabilities which have been introduced and modernized since 1980 have been utilized to only 86 percent of their planned potential. Branches of the machine building, chemical-forestry and construction complexes are especially lagging behind. Full use is not being made of the capabilities for producing brick, reinforced concrete slabs and structures and large-panel housing construction. A shortage of synthetic resins and plastics is resulting in insufficient use being made of the capabilities for processing them.

Despite the existence of a considerable number of capabilities throughout the country which are not being utilized fully, the erection and placing in operation of

similar production facilities is continuing. A need therefore exists for a thorough analysis of the existing status of affairs in the utilization of capabilities, for the introduction of corrections to the plans for construction operations and the adoption of measures aimed at overcoming the disparity between the capabilities and support for them in the form of raw materials.

At the present time and obviously in the immediate years ahead, growth in production efficiency will for the most part be based upon the use of internal reserves placed in operation by cost accounting methods, administrative restructuring and other organizational-economic factors. But in the future, and this is a programmed aim of the party, the chief lever for growth in production efficiency must be that of accelerating scientific-technical progress. The successful realization of this strategic task is possible only with appropriate development of machine building, the investment complex and those branches upon which the technical reconstruction of the national economy is dependent to a decisive degree.

The status of affairs in machine building and capital construction cannot be considered as satisfactory from the mentioned standpoint. It has already been mentioned above that the tasks of the five-year plan for placing in operation a number of very important production capabilities are not being fulfilled. The rates for modernization and technical re-equipping are low in many branches. And the reasons for this are associated to a considerable degree with shortcomings in the development of machine building, which is not satisfying the national economic requirements for many types of modern and highly productive machines and items of equipment, with the normative schedules for the carrying out of construction work being exceeded to a considerable degree. The plan for 1989 calls for measures aimed at eliminating the lag that has developed in the mentioned branches. Towards this end, in particular, the plans call for machine building production to be increased at a rate that is faster by a factor of 1.4 than that for industrial production on the whole.

But this is not the only factor. A chief concern lies in the fact that the entire increase in production within the machine building complex must be achieved on a qualitatively new basis, with an acceleration in the replacement of products being produced and the removal from production in a decisive manner of obsolete types of machines and equipment. The coefficient for the replacement of products within the complex must be raised next year to 10.8 percent compared to only 3.1 percent in 1985. This means that the average period for the replacement of products will be reduced to 9.2 years. A large step must be taken next year towards raising the technical level of the machines and equipment being produced. An increase must take place in the proportion of machines and mechanisms equipped with micro-processor equipment. The proportion of the more important types of machine building products which are

in keeping with the international level must be increased to 75 percent of their overall production volume, compared to only 55 percent for this current year. Hence there is a good basis for believing that the task advanced for the 12th Five-Year Plan, that of raising the technical level for the more important types of products, will be resolved.

And there is still one other question associated with the development of machine building. This branch, similar to all others, must make a worthy contribution in 1989 towards the social reorientation of the economy. This will be reflected first of all in a sharp increase in the production of equipment for the consumption complex (light industry, processing branches of the agro-industrial complex, trade and public catering. The production of such equipment must be increased during the year by a factor of 1.3 (with a growth of 5.4 percent in the output of the machine building complex above the plan for 1988). Enterprises of the defense branches of industry will join in the task of solving the mentioned task. And secondly, it will be reflected in expanding the production and improving the quality of consumer goods, particularly complicated types of household equipment. Moreover, in the case of many types of goods (television sets, domestic video tape recorders, washing machines and vacuum cleaners, the production volumes for 1989 will exceed to a considerable degree the tasks for the five-year plan.

In order to solve the tasks which will be confronting machine building next year, the plans call for large-scale measures to be carried out in connection with the technical re-equipping of the production potential of this branch. During the year, 9.8 percent of the complex's fixed productive capital, including 11.6 percent of its active portion, must be replaced.

Complicated and important national economic problems must be resolved in the investment sphere during 1989. Here we have in mind first of all the need for examining the priorities of investment policy and for bringing about a substantial change, compared to the rough draft for the five-year plan, in the branch structure for capital investments.

Truly, the intensification in the social reorientation of the economy has required a substantial redistribution of capital investments between the spheres and branches of the national economy. Roughly 11 billion more rubles worth of capital investments than called for in the five-year plan are being allocated for implementing the increasing program aimed at expanding the material base of the socio-cultural sphere for non-production construction. By what means? Since it is impossible to increase the overall volume of investments by such an amount, owing to the limited amounts of logistical and financial resources and the extreme degree of tension in the material balance and budget, there can be but one solution—reduce the capital investments in the production sphere planned for 1989 in the five-year plan and,

after concentrating attention on the priority trends, to utilize more rapidly the inventory created there and to reduce newly begun construction to a minimum. Only then will it be possible to reduce the damage to the national economy caused by a reduction in production savings. Thus the selection to be made here is of extreme importance and is not accompanied by a unanimous evaluation, particularly when this question is viewed from a departmental standpoint (from the standpoint of individual complexes, branches and regions).

At the present time, the tense and urgent nature of the problem has become more noticeable, since the opportunities for the redistribution of capital investments have declined substantially. Strictly speaking, their reduced portion—centralized capital investments—is subject to directive redistribution. In 1989, the latter will include only 53 percent of the overall volume of investments in the state sector. An increasingly larger portion of the investment funds will be turned over to the enterprises—next year, more than 86 billion rubles from the funds for the development of production and science and engineering, or 47 percent of the overall volume of state capital investments, will be used for construction.

Thus a new economic situation is developing, one which will give a distinct character to the year 1989 and which will have to be taken into consideration to a greater degree in the future. It dictates the need for new approaches in forming the appropriate sections of the state plans for economic and social development and especially when preparing various programs and decrees of the directive organs concerned with solving certain national economic and regional problems. The directive-administrative method continues to become less acceptable here and the sphere of its activity is declining sharply.

The funds of enterprises are used as a rule for technical re-equipping and for modernizing the existing potential and this is in keeping with the tasks of state investment policy. Thus, when forming the construction program for 1989, consideration was given first of all to the requests of enterprises and associations for capital investments at the expense of their own internal resources.

With regard to the distribution of state centralized capital investments, priority was given to those trends associated with the development of the consumption complex and also those branches which ensure an acceleration in scientific-technical progress. As a result, with an overall increase of 1.6 percent in state investments in the production sphere compared to 1988, capital investments for developing the food industry of the agro-industrial complex are increasing by 46 percent and the meat and dairy industry—by 60 percent. High rates are also planned for the machine building complex, the construction industry and the construction materials industry. It is understood that the rates of growth in capital investments in many other branches are negligible and in some—the volumes are declining somewhat compared to this current year

Under these conditions, a chief concern is the rational distribution of capital investments among specific construction projects and installations, since this will make it possible to accelerate the placing in operation of capabilities and to obtain a return from activated resources. But no radical improvements have as yet taken place here. The construction periods for a majority of the projects are still exceeding the planned and even the normative periods to a considerable degree and over the past two years there has been new growth in the above-normative volumes of unfinished construction.

The plan for 1989 embodies leading rates of growth for fixed capital over the rates of growth for capital investments and this must ensure a reduction in the above-normative volume of unfinished construction from 9.5 billion rubles expected at the end of the current year to 3.4 billion rubles. This requires a concentration of material resources, energy and funds by contractual organizations for the erection of underway construction projects for next year, the creation of the stockpiles needed for the last year of the five-year plan and a maximum limitation upon newly begun construction. The objective prerequisites for carrying out a pilot program are contained in the plan itself. In particular, the plans for next year for a majority of contractual organizations call for extremely humble rates of growth in the volumes of contractual work. For the country as a whole, they amount to only 0.4 percent of the plan for this current year.

#### **Towards the New Limits of the Economic Reform**

The coming year has one important feature—commencing with the beginning of the year, all enterprises of material production branches will operate in accordance with the principles of complete cost accounting and self-financing and hence the conditions of the USSR Law Governing a State Enterprise (association) will be extended to cover completely the entire production sphere.

The plan for 1989 was formed taking into account this circumstance. It is based upon the recommendations of enterprises and associations as summarized by the ministries and departments, upon the output production volumes, labor productivity, profit, currency earnings, capital investments by means of internal resources and upon other indicators. It also embodies a new approach for a state order. In conformity with the approved Temporary Statute on the System for Forming State Orders for 1989 and 1990, their structure and volume have been limited substantially. Thus the proportion of state orders in the machine building complex on average will not exceed 25 percent of the overall production volume (compared to 86 for this current year), in the fuel and energy complex—59 (95) respectively, metallurgical—42 (86), chemical-timber—34 (87) and USSR Minlegprom (Ministry of Light Industry—30 (96 percent). In the construction ministries, the proportion of installations of a construction nature, included in state

orders, and installations of the socio-cultural sphere account for less than 65 percent of the overall volume of contractual work. Thus, the enterprises of all branches have a real opportunity at their disposal for forming a considerable portion of their production program independently, based upon direct contacts with the consumers and the organs of logistical supply.

The conversion of enterprises over to complete cost accounting and self-financing, the new system for the formation of state orders and the development of wholesale trade in means of production through organs of logistical supply and on the basis of direct contacts between producers and consumers are being carried out under rather complicated conditions. First of all, in 1989 and also in 1990, it will not be possible to activate all elements of the new economic mechanism to an identical degree. At a time when some of them will be operating at maximum capability (for example, increasing independence of enterprises, economic contract, profit, cost accounting income and the system for distributing profit and income), others are only taking their first steps (lease contract, wholesale trade, independent movement of enterprises onto the foreign market), while still a third group is in the stage of preparing to introduce certain changes (reform in price formation, self-financing of republics, convertibility of ruble and others). Naturally, this will cause serious difficulties in the functioning of the new economic mechanism as a unified whole and it will require a thorough analysis of the existing situation.

Secondly, we cannot help but note that the introduction of the new economic mechanism is being carried out in an extremely difficult economic situation. Many elements of the national economy have been unable to overcome a lack of balance; a tense situation has developed in the consumer market, there is a great trend towards growth in the volume of unrealized monetary funds among the population (in deposits to the Savings Bank and in money on hand) and in the accounts of enterprises and the inflationary tendencies have become stronger. The business conditions of the foreign market are continuing to deteriorate and the resultant limitations on import opportunities are noticeably affecting many elements of the national economy.

Thirdly, life has placed on the agenda a number of social and economic tasks the solving of which was not provided for during the course of developing the 12th Five-Year Plan. This has required additional state expenditures and, as already noted, a substantial change in the structure of the resources being used.

The merging and interaction of the mentioned circumstances are making it extremely difficult to solve the double-edge task of planned administration of socio-economic development—the introduction of a new economic mechanism and the implementation of a definite economic policy with the conditions of the particular period of time being taken into account. A persistent need exists for consistently mastering the new methods

for administering the economy, simultaneously and constantly further improving them while taking into account the specific conditions and adopting in a number of instances temporary measures for achieving certain goals of the economic policy.

On the whole, this is an extremely complicated and multi-faceted problem. We will pause to discuss only certain aspects of it, those which arose during the formation of the plan for next year and which must be solved during the course of carrying it out. The first of these—how to achieve balance given the continuing deficit in many products and a sharp reduction in the volume of a state order as a directive indicator and the basis for centralized distribution of certain types of resources?

One of the most important tasks of this modern stage is that of achieving stable and balanced development for all branches of the national economy. A lowering of operational rhythm leads to a disruption in the carrying out of planned tasks and it creates a chain of violations of contractual obligations and this is incompatible with the principles of complete cost accounting. Meanwhile, the times when the centralized distribution of products played a decisive role in logistical support and when enterprises had to turn to their higher organs, to include USSR Gosplan and at times even the government, are receding into the past. Today, to an increasing degree, the basis for the normal organization of this process is becoming that of direct economic contacts between enterprises, the observance of contractual discipline and wholesale trade through the territorial organs of the logistical supply system or the firm stores of production ministries, ministry producers.

Naturally, the organization of direct contacts among the suppliers and consumers of products is a new, unusual and complicated type of work for many enterprises. As yet, a reliable information system has not been created which will make it possible for an enterprise to select a supplier. And at the present time, during the first stage, the ministries and departments are responsible for organizing these direct contacts and for furnishing assistance to the enterprises. Thus, taking into account the specifics of the transitional period, the Temporary Statute On the System for Forming State Orders for 1989 and 1990 calls for a special system for distributing a number of types of products not included in a state order but being of substantial importance with regard to balanced development of the national economy. Based upon the production volumes accepted by the enterprises, USSR Gosplan and USSR Gosplan establish the consumption limits for these types of products. The consumption limits represent a transitional stage from centralized distribution to wholesale trade. On the one hand, in conformity with the law, an enterprise operates on a completely independent basis in determining its output production volume. But after it has accepted a particular volume for itself and has included it in the plan, the distribution is carried out on a centralized basis, that is, the independence of enterprises is still limited in this area. As the wholesale

trade in means of production becomes more firmly established, the range of products distributed in accordance with the mentioned limits will consistently decline.

In our opinion, one of the central tasks of the remaining years of the current five-year plan is that of adapting the new economic mechanism to solving the problem of social reorientation of the economy. Some of the more acute problems here are being resolved with the aid of a state order. It includes the production volumes for non-food consumer goods, the volumes of paid services provided for the population, the commodity turnover of state trade enterprises, in light industry—products for children, youth and elderly persons. This must guarantee the carrying out of the tasks for production volumes as called for in the plan and also observance of the required proportions.

At the same time, experience has shown that the economic mechanism is still not ensuring effective stimuli for enterprises with regard to increasing the production of consumer goods. On the other hand, proper guarantees have not been created for observance by the production enterprises of the interests of consumers. In particular, in the light industry (yes and also in other branches), a trend has been noted recently towards a reduction in the production of cheap goods for which there is a high demand and replacing them with more expensive products. Thus a need exists for additional economic measures, stimuli and guarantees for increasing the production of goods for the population (with the required level of quality and assortment). The new economic mechanism is still not operating in yet another extremely important sphere of activity during this modern stage—resource conservation.

The problem concerned with economizing in the use of live labor is on the whole being solved successfully. In a majority of the national economic branches, the plans for raising labor productivity are being fulfilled and over-fulfilled. True, the experience of this current year reveals that the needed ratio between growth in wages and labor productivity is not being maintained in all areas. In the interest of strengthening control over observance of this most important economic ratio, a mechanism will be introduced next year for quarterly regulation of the wage fund depending upon growth in its productivity. But it should be borne in mind that this mechanism can be used only as a form of cost accounting and based upon a normative distribution of profit. With regard to the second cost accounting model, which is based upon a normative distribution of income, the mentioned approach is not acceptable for it and a mechanism must still be developed for regulating the dynamics of wages in conformity with the true economic potential.

The task of developing scientific methods for evaluating and conducting a thorough economic-statistical analysis of the problem of inflation and preparing planned-preventive

measures against its uncontrolled development is becoming more urgent in nature. Effective anti-inflationary regulators must be organically built into the new model for administering the economy and into the commodity-money and credit-financial relationships.

Experience has shown that the economic mechanism for enterprise operations is still exerting only a weak effect with regard to realizing economies in the use of fuel-raw material and other material resources. Here, as already noted, the planned computations for the first year of the five-year plan were by no means realized. And the raised indicators stipulated for 1989, for lowering material-intensiveness during formation of the plan, were achieved mainly through use of the traditional non-economic methods. Usually, when assigning limits for certain material resources, the more severe norms for expending them are taken into account. But today the consumption limits themselves by no means encompass all or even the principal portion of the output of a production-technical nature. For this same portion, which is distributed by means of wholesale trade and direct contacts, no limits can be established, since this would be in conflict with the new forms for logistical support. Thus a mechanism is needed which will ensure an optimum combination of centrally implemented measures aimed at carrying out the policy of resource conservation at the national economic level with measures carried out by the branches, regions, enterprises and associations.

And finally, there is still one other question—bringing the economic mechanism in the investment sphere into conformity with the modern economic policy. The formation of the plan for 1989 has once again confirmed that the interests and needs of the branches and regions for centralized capital investments are not being coordinated with the all-state interests and possibilities. The existing system for allocating funds for centralized capital investments, mainly by means of the state budget on a free and irretrievable basis, is not creating interest and responsibility in the ministries and departments for achieving economies in the use of funds or ensuring that they are used in an efficient manner. The directions to be followed for solving this problem were defined during the July (1988) Plenum of the CC CPSU—a conversion over to the credit method for financial support for capital investments with its inherent principles of reimbursement, urgency and ability to pay. A need will exist in the near future for creating a mechanism for issuing credits for investments, one which will be coordinated with the basic operating principles of enterprises on a complete cost accounting and self-financing basis. Strictly speaking, here we have in mind the development of self-financing principles for branches and regions. Moreover, when planning the investment process, paramount importance must be attached not to the capital investments—expenditures, but rather to the final result—the placing in operation of fixed capital, capabilities and installations. They must become the basis for the accounts maintained between the customers and contractors.

Further, the responsibility of a contractor for placing projects in operation in conformity with the schedules set forth in a contract is clearly inadequate at the present time and, most importantly, it is not reinforced by an efficient system for the formation and distribution of profit. Strangely enough, under the new conditions the ministries, departments and enterprise-customers are displaying only weak interest in increasing their production potential and their attention is concentrated mainly on current problems rather than on the future. All of this serves to underscore the need for substantial corrections in the economic mechanism in the investment sphere, for the purpose of creating interest and responsibility among all those participating in the investment process for intensifying and improving the production potential, for achieving efficient, thrifty and effective use of capital investments, for accelerating the return from invested funds, for eliminating above-normative unfinished construction and for consistently lowering the normatives themselves, which are clearly inflated today and do not conform to the new structure for capital investments.

In this regard, there is still one question which is of fundamental importance. A thorough study should be carried out on the ratio required for the future and for the 13th Five-Year Plan in the distribution of state capital investments between their centralized and non-centralized funds, a ratio which will be in keeping with the need for solving the all-state tasks for social and scientific-technical development and structural reorganization on the one hand and the active self-development of enterprises, associations and regions by means of their internal resources on the other. The results of such a study must serve as the basis for determining the level for the various economic normatives.

#### Footnotes

1. The lag tolerated in previous years in the tasks of the five-year plan for national income produced amounts up to approximately 4 billion rubles in a computation for 1989 and for industrial production—in excess of 7 billion rubles.

2. Materials of the 19th All-Union Conference of the Communist Party of the Soviet Union. Moscow, Politizdat, 1988, p 21.

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**1989 Plan Builds on 1988 Achievements**  
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[Editorial: "Organizing Fulfillment of the Annual Plan"]

[Text] The country's national economy is carrying out the plan of the 4th year of the 5-year plan. A significant feature of execution of the state plan for economic and social development is completion of the transition of all

enterprises to full cost accounting (*khozraschet*) and self-financing. The 1989 plan, which was drafted in accordance with the propositions of the 27th CPSU Congress and 19th All-Union Party Conference, is oriented toward acceleration of socioeconomic development and the accomplishment of major shifts to the advantage of the social sphere.

The social orientation is to be strengthened mainly on the basis of higher production efficiency, stricter resource conservation, and development of the initiative of enterprise collectives, which are now able to make about half of capital investments from their own resources, to form production plans independently, to expand contract relations, and to invigorate an economic effort toward greater financial soundness of the economy. It was taken into account here that the national economy as a whole has been experiencing pressure from the continuing financial imbalance and deterioration of the foreign economic situation.

In the process of assimilating the new economic forms and the new forms of operation of enterprises in the context of the USSR Law on the State Enterprise (Association), accordingly, ministries and departments have been set the task, when they are defining the tactics and strategy for strengthening the economic potential of the branch, of guaranteeing optimum combination of the interests of work collectives and social interests by increasing the efficiency of utilization of the production potential and by raising labor productivity, not by seeking opportunities for obtaining resources not earned.

Organizing fulfillment of the state plan for economic and social development in 1989 is closely bound up with performing the task of eliminating the consequences of the earthquake that occurred on 7 December 1988 in the northwestern rayons of Armenian SSR, which requires sizable labor resources, physical resources, and financial resources. In that context, ministries and departments have worked out a set of interrelated measures to negotiate a responsive economic maneuver in order to accomplish over the next 2 years recovery of the socioeconomic potential of the disaster areas of Armenia within the limits of the resources allocated and to unconditionally fulfill the basic assignments of the 1989 plan. The task is complicated, but realistic in view of the readiness of the Soviet people to provide selfless assistance in repairing the damage of the earthquake.

The experience of enterprises which have been assimilating the new economic methods and the new organizational forms of economic relations provides convincing evidence that there is untapped potential in production that makes it possible for ministries and departments to regroup manpower and resources, to put unutilized resources to use, and to do the necessary amount of work to repair the earthquake damage with no loss to fulfillment of the assignments for raising the standard of living of the people and for development of the social sphere.

There is no question that certain targets of the plan need to be corrected because of the tragedy in Armenian SSR, but performance of the social tasks set down in the 1989 plan must be fully guaranteed.

The year 1989 is placing a particular demand on the level of the organizational effort of ministries and departments. Attempts of incompetent and inept managers to cover their own unsoundness with someone else's misfortune and to follow the traditional path of seeking easy solutions—adjusting the plan and calling for additional resources and benefits—have to be completely precluded. Even under the complicated conditions of 1989, the plan remains an organizing normative act that is enforceable.

The strengthening of the rights of local soviets of people's deputies and of the role of councils of ministers of union and autonomous republics in guaranteeing the comprehensive development of the economy and in solving social tasks is typical of the organization of the fulfillment of the plan. Their responsibility is already increasing by the very fact that they are independently drafting plans so as to take into account the activity of all enterprises (associations) and organizations located in the respective region regardless of their subordination.

New opportunities are opening up for replenishment of resources of physical goods and expansion of services through development of cooperatives and the use of leasing, especially in rural areas. The sphere of wholesale trade in means of production is expanding substantially. Its volume will increase to 115 billion rubles during the year as against 40 billion in 1988.

Further mastery of the principles of foreign exchange self-financing and creation of joint enterprises with foreign firms will put foreign economic activity on a cost-accounting foundation.

Thus, 1989 is laying the basis for operation of the new economic model, which will be supplemented in the following year by the reform of wholesale prices and expansion of the scale of wholesale trade in means of production. This signifies realization of the party's principle of preparing all sectors of social production to enter the 13th FYP with the new economic mechanism.

The material conditions for fulfillment of the 1989 plan were prepared by the results of the previous year, which were characterized by a greater dynamism of the economy as a whole. The fuel-and-energy and metallurgical complexes have been operating stably. Transportation is improving its performance. Production efficiency is rising. The productivity of social labor rose 5.1 percent as against 2.4 percent in 1987. The materials intensiveness of the social product dropped 0.9 percent as against 0.4 percent in the 1986-1987 period.

We should especially emphasize that the country has made progress toward the social reorientation of the economy: the growth rate of output of Group B of industry has been faster than outlined by the 5-year plan. Wages of workers and employees, remuneration of kolkhoz members, and social consumption funds are growing.

The plan for retail sales was fulfilled for the first time in many years. Its growth was 21.5 billion rubles, which is 2.5-fold more than the average for the first 2 years of the FYP. Far more paid services were provided to the population than last year. The plant and equipment of the social sphere is being strengthened. Substantially more residential buildings, public schools, preschool institutions, clubs, and hospitals are being activated. In short, the FYP, especially when it comes to satisfying man's real needs, is by and large being fulfilled. Everything has not been equally successful in carrying out the FYP, but its social orientation is yielding results. Although the country cannot be satisfied with the state and performance of the machinebuilding complex. Over the first 3 years, delivery of machines and various equipment has fallen almost 2 billion rubles short of the targets of the FYP. This is holding back realization of the Energy Program and the Food Program as well as the retooling, first, of machinebuilding itself, but also of ferrous and nonferrous metallurgy, the chemical and petrochemical industries, light industry, transportation, and the entire economy.

Nor has the performance of light industry been satisfying consumers. The low quality of many goods does not meet the demands of purchasers. While the output of clothing and footwear has risen, the needs of various groups of the population for these products are not being met, and, what is more, the assortment of certain of these products has deteriorated since last year. Prices of the branch's products are being raised unjustifiably for many product groups.

Certain ministries and local authorities look upon the production of consumer goods as a secondary matter, they are not mobilizing local resources, and they are making poor and inconsistent use of their rights to coordinate effort in this most important direction. Development of the production of goods in light industry is being held up by interruptions in deliveries of raw materials and supplies and especially by the low rate of retooling of its physical plant and scientific-technical facilities.

What has been undertaken in the field of scientific-technical progress in the plan for the new year? Mainly, it is a question of qualitative shifts in machinebuilding. The state order for delivery of highly efficient products is aimed at this above all. Product renewal will increase 1.6 percentage points over 1988, which will make it possible to bring the share of updated products to 10.8 percent in the complex as a whole. The share of machines, equipment, and instruments, automatic production lines using

microprocessor equipment will reach 20.7 percent of the total volume of industrial output of the machinebuilding complex, which is 8.4 percentage points higher than the 1988 level.

Measures are being carried out to create and produce fundamentally new pieces of equipment, to introduce basic resource-saving technologies, to raise the level of coordination of the effort of the branches of machinebuilding and to strengthen their role in speeding up the economy's retooling.

Particular attention is being paid to organizing pilot experimental facilities, laboratory testing centers, creation of semi-industrial installations and production lines, development of scientific research and project planning and design organizations, as well as enterprises and organizations that are part of intersector scientific-technical complexes (MNTK's). A large role is being given to the MNTK in performing these tasks; 23 of them have completed the development of 160 exceedingly important types of equipment, technology, and materials. Moreover, the share of innovations exceeding the world level or without counterparts that have been put into series production averages 22 percent.

The state order for 1989 envisages more than 60 assignments for MNTK's. In such MNTK's as "Electric Welding Institute imeni Ye.O. Paton," "Scientific Instruments," "Termosintez," "Mekhanobr," and "Mikrokhirurgiya Glaza" foreign trade organizations have been created for export of scientific-intensive products and to organize joint enterprises and production projects based on industrial cooperation.

Measures have been outlined to speed up realization of the Comprehensive Program for Scientific-Technical Progress of the CEMA Member Countries up to the Year 2000. About 30 assignments from this program have been included in the plan for delivery of fundamentally new types of equipment and materials. The priority directions here are "Electronization of the Economy," "Full Automation," "New Materials and the Technology of Their Production and Processing," and "Biotechnology." The creation of joint enterprises and international associations and organizations has begun. In a number of socialist countries, technical centers and representative offices of branch ministries of the USSR have been opened and have been given the right to go out onto the external market. Performance of the Comprehensive Program of CEMA Member Countries is in need of greater attention on the part of the USSR GKNT, ministries and departments, which as yet are not relying very much in their plans on broad use of scientific-technical advances and are not concerned enough with the mechanism for management of that program.

Development of scientific-technical progress is dependent above all on the state of machinebuilding. That is why great importance is attributed to accelerated development of the machinebuilding complex. The growth of

output of machinebuilding will exceed by a factor of 1.5 the growth rate of the industrial sector as a whole over the period 1986-1989. The technical level and quality of machinebuilding's products will rise substantially, and there will be an increase in the production of new generations of machines, equipment, and instruments. For instance, the output of multifunction machine tools with NPC after the pattern of the "machining center" and progressive types of rolling equipment will increase 1.2-fold, that of equipment for the production of soluble cellulose by an ecologically clean method 2.2-fold, that of main line electric locomotives with a capacity of 9,000 kw 1.4-fold, and that of processing equipment for light industry 1.6-fold. There are plans to produce more equipment for the processing branches of the APK, for light industry, and for the trade of the food service industry—an increase of almost 1.3-fold over 1988.

The urgency of the problem of computerization of production, of improving operating efficiency in the sphere of management while at the same time reducing the size of the management staff, and of increasing the computer literacy of the population demands high rates of development of the electronic industry. This has been provided for in the plan. For instance, the output of personal computers will increase 2.5-fold and reach 359,000, the output of software-hardware complexes (automated machines that process materials) will be 4,700 units, which is an increase of 1.8-fold. The development and output of software necessary for efficient use of computers have been planned for the first time.

The 1989 plan calls for renewal of productive capital. The retirement of old fixed capital is rising to 2.6 percent from 1.9 percent in 1985. The coefficient of renewal in machinebuilding will be 10 percent as against 8.8 percent in 1988 (planned), including an index of 11.9 for the active portion of fixed capital, as against 10.4 percent in 1988. Equipment is lacking to speed up this process, which is why the percentage of retirement was planned at a lower level than in the 5-year plan.

Stocks of uninstalled equipment acquired mainly for new capital construction are being put to economic use more actively.

The main feature of the plan to be carried out is the strengthening of the social orientation, which demands major structural shifts to the advantage of the social sphere. The national income used will increase by 3.4 percent, the consumption fund by 5.4 percent, and the accumulation fund will be 95.5 percent of what was planned for 1988. The growth rates of the output of Group B of industry are more than twice as high as the growth rates of Group A (107 percent as against 103 percent). On the whole, the share of the consumption fund in the national income will be equal to 74.8 percent, as against 72.9 percent in the 5-year plan. The change in the share of the consumption fund is aimed at reducing the shortage of consumer goods.

The social reorientation of the state plan has made it possible to envisage the following indicators typifying the rise in the standard of living of the people:

|                                                                                                                                         | Plan for 1989 |
|-----------------------------------------------------------------------------------------------------------------------------------------|---------------|
| Per capita social consumption funds, relative to the previous year's plan, in percentage                                                | 106.8         |
| Average monthly wage of workers and employees, in rubles                                                                                | 218.9         |
| Average monthly remuneration of kolkhoz members for work in the socialized farming operation, in rubles                                 | 180.1         |
| Retail sales of state and cooperative trade, in billions of rubles                                                                      | 385.0         |
| Volume of sales of paid services to the public, in billions of rubles                                                                   | 68.2          |
| Adequacy of permanent preschool institutions for children between the ages of 1 and 6 relative to the number of children, in percentage | 61.8          |
| Adequacy of the supply of total apartment floor space relative to the population, in m <sup>2</sup> per inhabitant                      | 15.7          |

The average monthly wage of workers and employees, according to the calculations, will be 218.9 rubles in 1989, and the average remuneration of kolkhoz members for work in the socialized farming operation will be 180.1 rubles per month, which is 3.2 and 4 percent higher, respectively, than what was outlined for that year in the 5-year plan.

Payments and benefits to the public from social consumption funds are growing faster than remuneration and amount to 185 billion rubles, which is 10 billion rubles higher than the target for the 5-year period.

The social orientation of the plan is strengthened by state centralized measures to raise the standard of living of the people. The amount outlined to accomplish them is 3.7 billion rubles in 1989 and 12.3 billion rubles for the first 4 years of the FYP. Decisions taken for this year have allocated more than 4 billion additional rubles. Most of them will go to completion of measures to raise the wages of workers in the health service and social security, to improve the physical well-being of students in vocational and technical educational institutions, to raise standard rates of expenditures for food, medicine, and other needs in therapeutic institutions.

Plans call for undertaking a rise in wages and salaries of certain categories of personnel in the field of culture, for lengthening partially paid leave for infant care up to the age of 1.5 years, and a simultaneous extension of unpaid leave until the infant reaches the age of 2 and for extending the payment of benefits in indigent families to children up to the age of 12, for improving the pension coverage of certain categories of personnel, and other measures. Just as in past years, bonds of state loans issued previously are to be redeemed.

Total personal money income will increase approximately 6.2 percent over the plan for 1988, against the 3.6 percent called for in the 5-year plan. The major problem is to supply consumer goods and services for the rapidly rising money income of the population. A substantial strain has occurred here, and it can be relieved only by increasing the production of consumer goods and the rendering of services.

Councils of ministers of union republics and USSR ministries and departments are called upon to guarantee unconditional fulfillment of the plan with respect to increasing the production of consumer goods and improving their assortment and quality while at the same time preserving the output of the entire list of inexpensive goods.

The highest growth of retail sales during the years of the current FYP is to be achieved during the current year. The growth of sales of consumer goods and the rendering of services to the public have already speeded up substantially in 1988. But the unsatisfied effective demand that has built up and the accelerated growth of personal money income have not allowed the tension to relax on the domestic market. That is why it is so important to guarantee accelerated development of the production of consumer goods and services to the public. Enterprises will have to change what they specialize in, and production operations mothballed previously will have to be completed.

The rates and national economic proportions outlined in the plan guarantee the necessary growth of general economic indicators as well as structural shifts on behalf of very rapid performance of social tasks.

In organizing fulfillment of the 1989 state plan, the following relationship must be kept in the field of vision: raising the level of the people's prosperity depends to a considerable degree on carrying out the Food Program and on developing the material base of the agroindustrial complex. This particularly applies to meat production. Meat output is planned at 19.6 million tons in 1989, milk production at 108.2 million tons, and egg production at 83 billion (500 million above the 5-year plan). This is not an easy task, but it can be done. The entire growth of the output of animal husbandry is to come from raising the productivity of livestock and poultry. Consideration has been given to possibilities for further development of subsidiary farming operations of enterprises, organizations, and institutions, private farming projects of individuals, and collective fruit growing and truck gardening. The supply of young livestock and poultry, animal feed, and other supplies and equipment for personal farming projects of individuals is improving.

The volume of processing of agricultural raw materials is growing: food production is set at 151.1 billion rubles, which is 8 billion more than the 5-year plan. Plans in the food industry call for further development of the production of diverse high-quality products with higher nutrient value. For instance, the output of poultry meat will reach 1.225 million tons (dressed weight, 60 percent of the total weight of the poultry slaughtered). There will be an increase in the production of intermediate products and ready-to-use fast-frozen meat dishes. There will be improved use of second-category edible offals. Use of skimmed milk to make dairy products will rise to 54 percent and that of whey to 52.3 percent of present resources—this is higher than the level that has been achieved.

Measures are being carried out toward further strengthening of the material and technical base of the APK. It will be receiving for its development from all sources of financing, including resources furnished on shares in housing construction and facilities for joint use, which is slightly less than the FYP—500 million rubles. That much is to be obtained additionally by reducing the scale of above-allowance unfinished construction. Sizable resources are being allocated above all to strengthen the plant and equipment for the processing, storage, and sale of farm products, for the construction of farm roads, above all in the Nonchernozem Zone of RSFSR, and for development of the social sphere. Capital investments in the food industry are increasing 46 percent over the plan for 1988, those in the meat and dairy industry 60 percent, and those in the flour milling and rolled products industry 6 percent. Fulfillment of the targets of the FYP for activation of storage facilities and capacities for the production of meat and the processing of fish has to be guaranteed. The unsolved problems of the APK demand new approaches in agricultural policy and decisive steps to improve economic activity, to carry out organizational measures, and to develop the social sphere of rural areas.

The plan has singled out among the important problems that of satisfying the demand for consumer goods and services rendered to the public and of increasing the output of goods for children, young people, and the elderly.

The 1989 plan exceeds the FYP for this item by 10.9 billion rubles (in retail prices), and within that figure by 8.6 billion rubles for nonfood commodities (not counting the output of enterprises of USSR Minlegprom), and by 2.3 billion rubles (in retail prices) at enterprises of USSR Minlegprom, or an increase of 7.9 percent. The production of sewn garments for young people and the elderly will increase 15 percent over the 1988 plan and that of footwear by 9 percent. These goods are included in the state order. The output of particularly stylish goods for which the population has shown an increased demand and of new products of improved quality bearing the code designation "N" will continue.

At the same time, the "leaching out" from production of inexpensive goods for which there is volume demand cannot be allowed. For that reason, the USSR Council of Ministers placed on USSR Minlegprom and the councils of ministers of union republics the obligation to provide effective social oversight, to create favorable economic conditions for enterprises so as to prevent reduction and to begin the growth of the output of inexpensive and solid goods for the public in accordance with the basic decisions that have been taken on this question. As for durable consumer goods and housewares, the largest growth has been outlined for the production of color television sets (10 percent), VCR's (1.7-fold), furniture (7.6 percent), stationery and albums (11.2 percent), garden sheds (21 percent), portable generators and power cultivators (13.7 percent), etc.

The sphere of paid services is developing at faster than average rates. Their total volume will be 68.2 billion rubles, which is 6.2 billion rubles more than called for in the FYP. Consumer services are expanding substantially, especially in rural localities, as are the services involved in repairing and servicing household appliances, radios and other electronic equipment and automobiles, and furniture repairs. Here again, a substantial portion of the work is being done by cooperators and the self-employed. The number of cooperatives has grown substantially in the recent past. Whereas 13,900 of them were recorded by the beginning of 1988, as of 1 October, 48,500 were registered.

The 1989 plan reflects specific measures to strengthen and broaden the material and technical base of trade and the food service industry, as well as the sphere of social and cultural services.

It should be noted that the relationship among sources of financing construction of facilities in the sphere of social and cultural services is undergoing major change as enterprises make the transition to full cost accounting and self-financing. With the reduction in the share of state centralized capital investments (especially for housing and preschool and outpatient-polyclinic institutions), the share of enterprise resources is increasing. Work collectives now have an opportunity to accelerate construction of facilities in the sphere of social services.

The housing problem needs to be mentioned separately. In order to speed up its solution, the plan adopted a scale of housing construction that makes it possible to increase the total floor area of apartments per inhabitant from 14.6 m<sup>2</sup> in 1985 to 15.7 m<sup>2</sup> in 1989. In all, 134.2 million m<sup>2</sup> of total residential floor space must be activated in 1989 (the figure in 1988 was 129 million m<sup>2</sup>). There will also be an increase in the activation of housing financed with resources of housing construction cooperatives, private resources, and state credit—more than 5 million m<sup>2</sup>. Sales by housing cooperatives of dwellings whose construction was financed with state centralized capital investments is envisaged for the first time.

The task set by the 27th CPSU Congress of fully meeting the needs of the population for children's preschool institutions required adoption of specific measures. For instance, the councils of ministers of 10 union republics were given 1989 assignments to activate facilities with a capacity of 213,500 places by additional reliance on all sources of financing. Thanks to the planned activation of preschool institutions, the number of children in them will increase to 18.4 million. The adequacy of preschool institutions for children between the ages of 1 and 6 will rise from 59.7 percent in 1988 to 61.8 percent.

These structural shifts are being achieved by increasing the efficiency of social production, by accelerating scientific-technical progress, and by bringing all sectors of the economy over to the intensive strategy of development. That means that the growth of production is to be achieved in the basic sectors of the economy by raising labor productivity. And a large portion of the labor resources made available can be used in nonproduction sectors: health care, public education, culture, and housing and municipal services. Reduction of the number of administrative and managerial personnel is also taken into account.

Under the new economic conditions, profit is more important as an indicator of the effective performance of enterprises. Its growth from the economic activity of state enterprises and organizations will be more than 13 billion rubles in 1989 (or 6 percent over 1988), and the major portion of it will moreover be obtained by reducing the cost of products and services. Profit cannot be allowed to increase through an unjustified rise of prices. That is why USSR Goskomsen and other authorities have to substantially step up their monitoring of prices, especially on products put into production for the first time.

The line of strengthening resource conservation is still being pursued. The reduction of the materials intensiveness of the social product is pegged at 0.7 percent from the 1988 plan, as against the average of 0.4 percent for the period 1986-1988. Metals intensiveness of the national income is to drop 3.9 percent from the 1988 plan, and energy intensiveness 1.4 percent. The growth of production of products and work output in industry and construction is being achieved mainly through conservation of supplies and equipment. Calculations of requirements for 1989 show a saving over 1988 of more than 4 million tons of rolled products of ferrous metals, more than 500,000 tons of steel pipe, 13 million m<sup>3</sup> of timber and lumber, 41.9 million tons of standard fuel, representing fuel and energy resources (assuming substitution of 8.6 million tons of organic fuel), which is at the level of or higher than the assignments of the FYP.

A major potential for supplying raw materials and supplies to the economy is the extensive use of secondary sources of materials and fuel and energy as well as usable

production waste. Stocks of them, taking into account replenishment from current production, are immense, and the irrecoverable losses are equally great.

The primary raw materials and supplies made available thanks to substitution of secondary resources amounts to 15.4 billion rubles, which is 400 million rubles more than called for by the 1988 plan. The share of secondary raw materials, supplies, and fuel in the productive consumption of industry will rise from 9.1 percent in 1988 to 9.6 percent in 1989. Broad solution of the problem in all regions of the country will make it possible not only to substantially improve the physical balance of production and construction, but also to remedy the ecological situation in the country.

It is a question first of all of preventing the discharge of polluted sewage into rivers and lakes and seas (in 1989, this discharge will amount to 0.7 km<sup>3</sup>). Which will require sewage treatment plants, recycling systems for water, use of new manufacturing processes, etc. This has been reflected in the plan. Total activation of the capacity of sewage treatment plants financed from all sources will amount to about 4 million m<sup>3</sup> per day, of which the state order will include activation of installations of intersector importance with a total capacity of 3.4 million m<sup>3</sup> per day, including plants in the cities of Tallinn, Volgograd, Novosibirsk, Magadan, Krasnoyarsk, Kemerovo, Dnepropetrovsk, Kostroma, Ryazan, Ivano-Frankovsk, etc.

The discharge of harmful substances in exhaust gases causes substantial damage to the environment. Fundamentally new equipment and processes will be activated to reduce this discharge further, outdated manufacturing and gas- and dust-catching equipment will be replaced and rebuilt, the level of use of existing installations and the construction of new ones will be raised, and other organizational and technical measures will be taken. All of this will make it possible to reduce emissions to 2.1 million tons, which is a larger reduction than called for by the assignments of the FYP for 1989.

But it is disturbing that USSR Minenergo [Ministry of Power and Electrification], USSR Minneftekhimprom [Ministry of the Petroleum Refining and Petrochemical Industry], USSR Minugleprom [Ministry of the Coal Industry], USSR Minchermet [Ministry of Ferrous Metallurgy], USSR Mintsvetmet [Ministry of Nonferrous Metallurgy], USSR Minkhimprom [Ministry of the Chemical Industry], USSR Minudobreniy [Ministry of Mineral Fertilizer Production], USSR Minstroy materialov [Ministry of the Construction Materials Industry], and USSR Minmedbioprom [Ministry of the Medical and Microbiological Industry] have not outlined complete fulfillment of assignments to control air pollution that they were given in the decrees of policy-making bodies.

Measures are being carried out to protect the soil from erosion. A total of 178,000 hectares of protective forest plantations will be established—6,000 hectares more than called for in the calculations for the FYP.

Organization of fulfillment of the plan for the 4th year of the FYP must be aimed at performing the strategic tasks of improving national economic proportions and increasing the efficiency of social production and the stability of reproductive processes. They include a faster growth for the output of the manufacturing branches of industry than for the extraction of raw materials and fuel. The growth in extraction of fuel and raw materials will be 2.3 percent in 1989, but the output of the branches of the manufacturing industry will grow at a rate twice as high—4.5 percent. It is important that we guarantee stability of the growth of production in the manufacturing branches. In doing so, we should avoid any reduction of the mobilizing role of plans, ensuring that state orders have the effect of a guarantee on satisfaction of society's foremost needs. The 1989 plan is distinguished by a very large reduction of the share of the state order for many sectors and branches. But at the same time, the size of the state order envisaged in the plan makes it possible to accomplish centralized management of economic development successfully. The organization of economic activity during the current year will serve as a kind of

check on this substantial shift in relations between the enterprise and society (the state) from the standpoint of satisfying social needs.

The state order has been entirely removed from gas deliveries, which are based solely on contracts. The state order has in essence been given up for metal-cutting machine tools (only 1,100 units as against 160,000 units in 1988), forging and pressing machines (1,200 in 1989 and 50,200 in 1988). The share of the state order is very small for fertilizer, automobiles (about 5 percent of what it was last year), tractors, agricultural machines, excavators, and timber, but the state order includes the entire production of vegetable oil and most foodstuffs, nonfood consumer goods, cement, the entire output of refrigerators, washing machines, television sets, motorcycles, furniture, and footwear and other goods for children and the elderly.

It is assumed that the maneuver with state orders undertaken in 1989 will contribute to the independence of work collectives in developing production initiative, in discovering and using untapped internal potential for fuller satisfaction of the needs of the economy and the public on the basis of a higher degree of economic balance. The tables given (Tables 1 and 2) show in graphic form the rate of reduction of the coverage of the production program by the state order.

Table 1

| Delivery of the Most Important Products                                                                                      | 1988, Plan                                                            |                             | 1989, Plan                                                            |                             |
|------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|-----------------------------|-----------------------------------------------------------------------|-----------------------------|
|                                                                                                                              | For Reference:<br>Total Production<br>According to<br>Enterprise Plan | State Order<br>for Delivery | For Reference:<br>Total Production<br>According to<br>Enterprise Plan | State Order<br>for Delivery |
| Petroleum, including gas condensate (extraction),<br>millions of tons                                                        | 619.0                                                                 | 619.0                       | 623.6                                                                 | 623.6                       |
| Natural gas (extraction), billions of m <sup>3</sup>                                                                         | 752.0                                                                 | 752.0                       | 800.0                                                                 | —                           |
| Coal, millions of tons                                                                                                       | 753.6                                                                 | 753.6                       | 766.0                                                                 | 262.6                       |
| Rolled products of ferrous metals, finished,<br>millions of tons                                                             | 114.8                                                                 | 79.7                        | 116.5                                                                 | 77.8                        |
| Steel pipe, millions of tons                                                                                                 | 20.3                                                                  | 20.3                        | 20.9                                                                  | 20.3                        |
| Fertilizer (converted to 100-percent nutrients),<br>millions of tons                                                         | 37.1                                                                  | 37.1                        | 38.2                                                                  | 7.1                         |
| Synthetic resins and plastics, thousands of tons                                                                             | 5,860.0                                                               | 5,860.0                     | 6,000.0                                                               | 1,904.0                     |
| Metal-cutting machine tools, thousands                                                                                       | 160.1                                                                 | 160.1                       | 134.4                                                                 | 1.1                         |
| Forging and pressing machines, thousands                                                                                     | 50.2                                                                  | 50.2                        | 42.7                                                                  | 1.2                         |
| Passenger automobiles, thousands                                                                                             | 1,293.6                                                               | 1,293.6                     | 1,300.0                                                               | 57.2                        |
| Tractors, thousands                                                                                                          | 591.1                                                                 | 591.1                       | 586.2                                                                 | 7.0                         |
| Agricultural machines, millions of rubles                                                                                    | 4,322.0                                                               | 4,322.0                     | 435.0                                                                 | 45.0                        |
| Machines and equipment for animal husbandry and<br>feed and fodder production, millions of rubles                            | 3,090.0                                                               | 3,090.0                     | 3,389.0                                                               | 29.0                        |
| Excavators, thousands                                                                                                        | 43.3                                                                  | 43.3                        | 42.8                                                                  | 4.6                         |
| Commercial timber, millions of m <sup>3</sup>                                                                                | 290.4                                                                 | 290.4                       | 294.9                                                                 | 91.8                        |
| Cement, millions of tons                                                                                                     | 136.8                                                                 | 136.8                       | 138.4                                                                 | 126.0                       |
| Footwear, millions of pairs                                                                                                  | 834.0                                                                 | 834.0                       | 868.0                                                                 | 521.0                       |
| Vegetable oil from state stocks of raw materials,<br>thousands of tons                                                       | 3,330.0                                                               | 3,330.0                     | 3,350.0                                                               | 3,350.0                     |
| Commercial edible fish products, including canned<br>fish, thousands of tons                                                 | 5,593.0                                                               | 5,593.0                     | 5,660.0                                                               | 5,306.0                     |
| Nonfood consumer goods (not including goods<br>of light industry of USSR Minlegprom) in retail<br>prices, billions of rubles | 132.8                                                                 | 132.8                       | 142.5                                                                 | 113.5                       |
| Television sets, thousands                                                                                                   | 10,097.0                                                              | 10,097.0                    | 10,350.0                                                              | 10,350.0                    |

Table 1

| Delivery of the Most Important Products         | 1988, Plan                                                            |                             | 1989, Plan                                                            |                             |
|-------------------------------------------------|-----------------------------------------------------------------------|-----------------------------|-----------------------------------------------------------------------|-----------------------------|
|                                                 | For Reference:<br>Total Production<br>According to<br>Enterprise Plan | State Order<br>for Delivery | For Reference:<br>Total Production<br>According to<br>Enterprise Plan | State Order<br>for Delivery |
| Color television sets alone                     | 5,935.0                                                               | 5,935.0                     | 6,525.0                                                               | 6,525.0                     |
| Household refrigerators and freezers, thousands | 6,398.0                                                               | 6,398.0                     | 6,580.0                                                               | 6,580.0                     |
| Motorcycles, thousands                          | 1,097.0                                                               | 1,097.0                     | 1,070.0                                                               | 1,070.0                     |
| Household sewing machines, thousands            | 1,900.0                                                               | 1,900.0                     | 1,800.0                                                               | 1,800.0                     |
| Washing machines, thousands                     | 6,714.0                                                               | 6,714.0                     | 7,078.0                                                               | 7,078.0                     |
| Furniture, billions of rubles                   | 9.2                                                                   | 9.2                         | 9.9                                                                   | 9.9                         |

Table 2

| Activation of Facilities in the Sphere of Social and Cultural<br>Services Financed From All Sources* | 1988, Plan | 1989<br>Plan | Relative to the<br>1988 Plan,<br>in Percentage |
|------------------------------------------------------------------------------------------------------|------------|--------------|------------------------------------------------|
| Housing, millions of m <sup>2</sup> of total floor space                                             | 129.6      | 134.2        | 103.5                                          |
| Preschool institutions, thousands of places                                                          | 897.6      | 985.8        | 109.8                                          |
| Children's homes, thousands of places                                                                | 3.5        | 11.6         | 3.3-fold                                       |
| Public schools, thousands of places                                                                  | 1,618.9    | 1,708.0      | 105.5                                          |
| Boarding schools for orphans and children left without<br>parental care, thousands of places         | 2.1        | 5.6          | 2.7-fold                                       |
| Vocational and technical schools, thousands of places                                                | 152.2      | 101.1        | 66.4                                           |
| Clubs and culture centers, thousands of places                                                       | 370.8      | 494.6        | 133.4                                          |
| Rayon culture centers, thousands of places                                                           | 50.8       | 67.4         | 132.7                                          |
| Hospitals, thousands of beds                                                                         | 82.9       | 76.7         | 92.5                                           |
| Outpatient-polyclinic institutions, thousands of visits per day                                      | 196.8      | 211.0        | 107.2                                          |
| Boarding homes for the elderly and disabled persons, thou-<br>sands of places                        | 17.8       | 19.2         | 107.9                                          |

\* The state order includes construction of practically all facilities in the social sphere.

In evaluating the problem of the physical balance of this year's plan, we should note that even taking into account further development of horizontal economic relations among enterprises, wholesale trade and means of production, and state orders for delivery of the most important fuels and supplies, it will take a very strenuous effort to meet the needs of the economy.

Under those conditions, it is all the more important to achieving economic balance that we attain not only the quantitative volumes, but also the qualitative parameters of products, while at the same time intensifying resource conservation in light of the specific nature of sectors and branches. Conservation should make it possible to satisfy 100 percent of the growth of the needs for metal products, forest products, and cement for production and capital construction, and 60 percent of the needs for fuel and energy resources adjusted for substitution of organic fuel. As a consequence, the augmented production and construction programs for 1989 are being carried out with the same resources of metal, wood materials, cement, and motor fuels, that is, within the limits of the 1988 plan. At the same time, there is a substantial reduction of centralized distribution of materials and equipment. Whereas in 1988 USSR Gosplan

and USSR Gosstab distributed more than 5,000 product designations, in 1989 they will be distributing one-tenth as many.

Additional deliveries of petroleum, petroleum products, natural gas, gas condensate, coal, and a number of other very important products must be guaranteed on behalf of a better balancing of the plan and in order to obtain additional foreign exchange to pay for imports of necessary foodstuffs and technical industrial goods over and above the state order or the 5-year plan, with the consent of work collectives. These additional outputs have been taken into account in the calculated balances, and the necessary physical and technical resources have been allocated for them. Work collectives are being stimulated by the state to produce that output.

The fuel and energy complex is functioning stably. This has made it possible for the 1989 plan to envisage fuel resources exceeding the assignments of the 5-year plan for export deliveries. It has to be acknowledged: this measure was compelled by the drop in prices on the world market and the indispensable need to have foreign exchange to purchase foodstuffs. Another reason for the

increased extraction of fuel is the need to offset reduction of the production of electric power at nuclear power plants by generating it at thermal stations. The fuel balance has assumed production of petroleum and gas condensate (8 million tons), gas (20 billion m<sup>3</sup>), and coal (16 million tons) above the assignments of the 5-year plan. As a consequence, the production of petroleum and gas condensate will be 631.6 million tons, gas 820 billion m<sup>3</sup>, and coal 782 million tons.

The production of electric power has been projected with a growth of 57 billion kwh, or 3.3 percent over 1988, which will cover the needs of the economy. Electric power consumption is growing 7.1 percent in the agroindustrial complex, and consumption for municipal and consumer services will rise 4.1 percent.

The performance of the metallurgical complex is characterized by increased production of finished rolled products to 116.5 million tons, a growth of 1.7 million tons, or 1.5 percent, over 1988. But production of economical metal products will grow at higher rates: in particular, rolled products from low-alloy steel and heat-hardened steel—7.3 percent, galvanized, aluminum-plated, lead-plated, and tin-plated steel sheet—7.7 percent, and steel belting for the tire industry—23.2 percent. The resulting saving on ferrous metals will reach 1.3 million tons (at the level of the 5-year plan).

The country is receiving more oxygen-converter steel and electric steel. The volume of intermediate products obtained from continuous casting machines will increase 11 percent over 1988 and reach 30.5 million tons.

The branches of the wood-chemical complex, especially the chemical industry and petrochemical industry, are being guaranteed faster than average development. But because of the lag in activation of production capacities and the unsatisfactory performance of enterprises in utilizing the potential that has been built and the unsatisfactory performance of ministries with respect to balance and coordination of their activity, the 1989 plan was drafted with a certain lag behind the assignments of the FYP for the output of fertilizer, polyethylene, polystyrene, caustic soda, paper, cardboard, wood particle board, microbiological feed protein, and certain other products. But the output of the most up-to-date and progressive chemical products will increase at faster than average rates: phosphate fertilizers, including phosphate rock (to 28.3 percent of the total output of fertilizers), synthetic fibers and filaments (to 62 percent), radial automobile tires (to 50.4 percent of the total output), and highly efficient new chemicals for plant pest and disease control).

In the petroleum refining industry, the output of the principal product has been outlined in accordance with the 5-year plan.

In the timber and lumber, woodworking, and pulp and paper industry, the situation still remains problematical,

which is why the strain is extreme in trying to meet the needs of the economy for forest products. Paper resources for 1989 represent 7,197,000 tons, which is 270,000 tons less than called for by the 5-year plan. But thanks to tighter economy and restrictions on releases of paper to agencies managing the economy and other measures it has been possible to add 20,000 tons of newsprint to the available paper and to allow subscriptions to central newspapers and magazines mainly without limitation.

Successful performance of the tasks of satisfying the needs of the economy and society and the conduct of social welfare policy depend on the state and development of transportation and capital construction. That is why more strenuous assignments have been planned for these sectors in 1989.

For instance, the volume of freight traffic by all branches of transportation will rise 2.6 percent over 1988. Electric traction's share of rail freight traffic will rise to 65 percent. The share of highway freight traffic carried by trucks with diesel engines will increase to 62 percent. That will make it possible to save more than 2 million tons of standard fuel. About 2 million tons of gasoline and diesel fuel will be saved by the 30-percent increase in the fleet of trucks using compressed and liquefied natural gas.

The condition of the highways is improving, and the length of hard-surfaced roads will be 61.8 percent. The volume of sales of paid services to the public for the entire complex of transportation and communications will increase 870 million rubles to 23.6 billion rubles, including 4 billion rubles for communications.

As for capital construction, here again, given the social orientation of the plan, preference is being given to accelerated solution of social problems. Plans call for redistributing capital investments to the advantage of nonproduction construction so as to meet the planning targets for activation of all social and cultural service facilities. In all, 59.3 billion rubles are being allocated to development of the nonproduction sphere, which is 7.4 percent more than in 1988.

Compared to the FYP, the volume of capital investments in that sphere is increasing by 11 billion rubles. Aside from the capital investments transferred for nonproduction construction by USSR ministries and departments and councils of ministers of union republics, 6 percent of the volume of state capital investments has been centrally switched from production branches to construction of institutions for health care, education, culture, and other facilities in the social service sphere which have statewide, intersector, and regional importance. At the same time, there has been no reduction of capital investments in the production branches under republic jurisdiction—consumer services to the public, local industry, the printing and publishing industry, communications, highway transportation and highway

management, river transportation, water management, the trade sector, and other branches directly related to serving the public.

The increase in the share of capital investments going for development of the social and cultural sphere and the drop in the share for construction of production facilities have required a differentiated approach to development of the branches of national economic complexes so as to take into account the priority nature of the tasks they are to perform. Accordingly, higher growth rates of capital investments have been set for the agroindustrial complex (especially the processing of agricultural products), the branches of machinebuilding that are crucial to acceleration of scientific-technical progress, and also the construction complex.

Capital investments will not be so scattered and the volume of unfinished construction is being reduced, that which exceeds the allowance above all. The level of unfinished construction in the economy and in each sector in particular demand specific and resourceful actions by enterprises and agencies which administer branches, since the situation has become acute and has proven to be incompatible with the new economic conditions.

The 1989 plan calls for reducing the number of construction starts, and construction has been halted on projects which cannot be activated within the allowed period of time. Thanks to the concentration of resources on projects near completion, activation of fixed capital is increasing by 2 billion rubles and the growth rate of activation is faster than the rise of capital investments. This has made it possible to reduce the total annual volume of capital investments by 3.3 billion rubles and the volume of construction and installation work by 2.5 billion rubles. The decrease in capital investments and construction and installation work has affected practically all the branches of physical production. Performance of the assignments outlined in the section for capital construction will reduce the above-allowance volume of unfinished construction from 9.6 billion rubles at the end of 1988 to 3.4 billion rubles, which will make it possible to achieve the normative level of unfinished construction by the end of the FYP.

A proposal has been made in connection with the concentration of resources on construction projects near completion and the mothballing of a number of construction projects in the past to analyze their purpose and condition and to transfer them to ministries and enterprises which are able to complete construction and activate them with their own resources—above all to increase the production of consumer goods.

This measure has become all the more possible given the growth of capital investments financed with resources of enterprises and organizations. Their share in the total volume of capital investments has reached 47 percent as against 38.4 percent in 1988.

This means that simple reproduction of the existing potential has for all practical purposes been turned over to enterprises, and in certain sectors even expanded reproduction is being accomplished with the resources of enterprises and centralized funds of ministries.

The line is still being pursued to increase the share of investments committed to retooling and reconstruction of existing enterprises. The share of resources for those purposes in the total volume of state centralized and noncentralized capital investments for construction of production facilities is 50.2 percent as against the 47.7 percent called for in 1989 by the 5-year plan.

Particular attention is being paid to accelerating the activation of production capacities, projects, and fixed capital. Their activation financed with state capital investments amounts to 178 billion rubles. This is higher than the assignment of the 5-year plan (for this year) and 4.7 percent more than in 1988. In construction, the state order has been defined for activation of the most important production capacities of the national economy as well as practically all projects in the sphere of social and cultural services. The limit-allowance of construction and installation work under contract on production facilities under construction at which the capacities of the state order are being built is 12.2 billion rubles, or 13 percent of the total work program. At the same time, the volume of work on projects in the sphere of social services amounts to about 50 percent of the total program of construction contractors. Construction organizations have been afforded the possibility of forming 25-30 percent of their production program independently on the basis of direct contractual relations with customers.

Construction by the direct-labor method has expanded. Its volume has reached 14 billion rubles, which is 2.5 billion rubles, or 20.5 percent, above the 1988 plan.

In view of the increased pace of construction of housing and other projects in the sphere of social and cultural services and satisfaction of the needs of the public, production of building materials is increasing. To be specific, the output of cement is growing 2.4 million tons compared to the 1988 plan.

Organization of fulfillment of the investment program for 1989 requires substantial efforts on the part of construction ministries, councils of ministers of union republics, and all participants in the investment process.

One more feature of the current year's plan should be noted. It was drafted on a broader democratic basis. Consistent with law, the volume of output of products and services was planned by enterprises and organizations on the basis of the indicators of the FYP. And the plan was refined so as to take into account the criticism and proposals prepared by standing commissions of the chambers of the USSR Supreme Soviet and expressed by deputies in a session of the Supreme Soviet. This made it

possible to balance the planned proportions more reliably, to strengthen the social orientation of the economy, and to provide for additional measures to increase the efficiency of social production.

For instance, on the basis of deputy criticism an opportunity was found to increase retail sales by 6 billion rubles and bring their total volume up to 385 billion rubles, backed up with commodity resources. Fulfillment of the planned assignment will signify an increase in the size of the growth of retail sales to 6.1 percent from the 4.4 percent which the draft plan originally called for. This addition will make it possible to balance personal money income more reliably with commodity resources. The deputies called attention to the continuing unsatisfactory supply of building materials to meet the needs of the population. That is why provision was made to increase sales of forest products and building materials to private builders.

Pursuant to recommendations of commissions of the USSR Supreme Soviet, opportunities were studied for increasing the output of clothing and footwear for children, young people, and the elderly. As is well-known, it is the output of precisely these goods that has been included in the state order. Measures of an economic nature have been taken that preclude "leaching" relatively inexpensive products from the assortment. To be specific, as of 1 January 1989 supplements have been applied to wholesale prices of goods in the children's assortment.

Foreign exchange is being called upon to improve the satisfaction of demand by taking credits from foreign banks in order to purchase the physical resources needed by enterprises in light industry. USSR Minlegprom is to find opportunities for expanding deliveries of its products for export so that it can use the foreign exchange realized to buy raw materials for its own enterprises. Up to now advantage has not been taken of that possibility.

Revisions have been made in the export and import plan. Aside from light industry, provision has been made for additional purchasing of raw materials to increase the production of consumer goods by the enterprises of the chemical industry.

The rise in the efficiency of capital investments in production projects that has been outlined makes it possible to redistribute more of those investments. The balance of the planned activation of projects in the sphere of social and cultural services with resources has improved, and there is an increase in the actual activation by 200,000 m<sup>2</sup> of total floor space for housing, preschool institutions with a capacity of 5,000 places, and public schools with a capacity of 1,800 places.

Capital investments to develop the APK have been increased by 1.3 billion rubles. Thanks to reduction of exports and a decrease in deliveries to other consumers, the number of MTZ and YuMZ tractors to be delivered to

the agroindustrial complex is being increased by 8,400, the number of trucks by 5,800, and the number of self-propelled graders by 300. Enterprises and farms in the agroindustrial complex have been allocated an additional 1.52 million tons of motor gasoline, 456,000 tons of diesel fuel, 260,000 tons of rolled products of ferrous metals, 103,000 tons of cement, and 60,000 tons of phosphate fertilizers (converted to 100-percent nutrients).

The organization of fulfillment of the plan in the APK must be directed toward increasing the efficiency of resource utilization. Up to now, the return on fertilizers has remained at the level of 75 percent of the standard. Utilization of reclamation projects is poor, the volume of above-allowance unfinished construction is high, capital investments are being scattered, and the preservation and use of equipment has still not been organized in a satisfactory way. Agriculture is the only sector in the economy in which equipment is frequently retired before reaching the end of its rated service life. These and other shortcomings in agricultural production have resulted above all from the ineffective economic relations. At the meeting in the headquarters of the CPSU Central Committee on 12 October 1988, managers of kolkhozes, sovkhozes, and other enterprises in the agroindustrial complex remarked that leasing is the progressive method of carrying on economic activity. Use of this method increases output and raises production efficiency, and productivity of labor and profit grow at faster rates. But the development of leasing relations in kolkhozes and sovkhozes is being held up by the absence of a legal mechanism and an economic mechanism.

Appropriations for the development of basic science have been increased by 310 million rubles in keeping with the proposals and criticism of the division of the plan on science and technology for this year. State resources are being committed to reequipping scientific research institutions of the USSR Academy of Sciences and the academies of sciences of the union republics. When this addition is taken into account, the growth of appropriations from the state budget to academy science amounts to 32.3 percent in 1989.

Scientific-technical complexes in sectors are revealing a substantial change of direction in organizing the creation of new equipment and technology and the organization of its production and use. Definite success is noticeable here. All equipment built to incorporate developments of MNTK's meet the world technical level or is being built for the first time in world practice. These complexes have been allocated 302 million rubles from the state budget to perform scientific research projects, which is an increase of 77 percent. The remark was made in a session of the Supreme Soviet that the work of MNTK's has not had a sufficient influence on acceleration of scientific-technical progress. This is a manifestation of the passive position taken by a number of ministries and departments, which have been making little effort to increase the efficiency of operation of

enterprises and organizations included in MNTK's. Departmentalism has to be eliminated in the approach to organizing projects and production operations carrying out orders for MNTK's.

Additional funds have been allocated, on recommendation of the deputies, for measures to protect the environment. More than 13 percent of capital investments for production facilities in this complex have been committed to retooling machinebuilding and to reconstruction and construction of projects in sector science.

Proposals have also been taken into account concerning the production of lumber (in particular, that timber resources for cutting be allocated to timbering enterprises in localities where production capacities exist, on the basis of their application) and concerning newsprint as well as paper for photogravure by making alterations in the product mix.

Prerequisites are being brought about for practical exercise of the broad rights of ministries, departments, enterprises, and organizations in the foreign economic sphere in order to increase the effectiveness of foreign economic relations, to raise the technical level and competitiveness of products produced, to make the transition to economic methods of management, and to implement the principles of self-support with respect to foreign exchange.

Expansion of foreign economic relations affords the possibility of making better use in the economy of the advances of world scientific-technical progress and of effectively solving a number of problems of the national economy.

The effort is being stepped up to establish direct production and scientific-technical relations with enterprises and organizations of the socialist countries, to set up joint enterprises and organizations, to develop industrial cooperation and scientific cooperation and other progressive forms of cooperation. Mutually advantageous cooperation with firms of the capitalist countries and developing countries is undergoing further development.

Fulfillment of the state plan for economic and social development of the USSR in 1989 is aimed at strengthening and developing constructive trends in the economy and at deepening structural shifts so as to accentuate its social reorientation and to increase the role of intensive factors in economic growth.

But the plan is being carried out under unusual conditions in that on the one hand there is a growth of constructive processes related to introduction of the new economic mechanism, further intensification of people's work activity and democratization of society, and to application of scientific-technical progress, while on the other the operation of a number of existing factors impeding the performance of the economy is objectively persisting.

Successful organization of fulfillment of the strenuous assignments of the 1989 plan requires vigorous application of the advances of scientific-technical progress, fuller revelation of the capabilities of the new economic mechanism, including broad application of long-term leasing, the second model of cost accounting, expansion of industrial cooperation, the organic combination of personal, collective, and nationwide interests, and attainment of high efficiency of social production.

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### **Economist Sees Little Change in Economic Planning**

18200241 Moscow SOVETSKAYA ROSSIYA  
in Russian 24 Feb 89 p 3

[Doctor of Economics scientist D. Valovoy answers readers questions]

[Text] Our newspaper has already written about D. Valovoy's book "The Human Dimension of Economics" [Ekonomika v chelovecheskom izmerenii]. Other articles by the scientist in PRAVDA and also the television broadcast "Arguments of Perestroyka," in which he participated, also evoked a wide public response. More than 3,000 letters have been received addressed to Professor D. Valovoy. The chief editorial board of popular-science and educational programs of Central Television invited the author to the studio and asked him to answer questions of meeting participants and authors of the letters. Published below are some of the answers. The broadcast on 24 February for the first program at 18:25 will go into more detail on the answers.

[Question] Dmitriy Vasilyevich [Valovoy]! In the article "Pyramid" in the 19 September 1988 issue of PRAVDA, you wrote that the 12th Five-Year Plan and the Basic Directions were compiled on former cost principles. It seems word and deed have again drifted apart, like ships on the sea?

[Valovoy] In the sphere of economics, as before, there is no unity between word and deed. We are striving to satisfy the needs of the people more completely, but in fact, as before, the goal of production collectives is to fulfill the plan in rubles. In practice, they call this indicator simply the gross...

[Question] Excuse me, but, you see, in the new conditions, fulfillment of contract deliveries is an estimate indicator!

[Valovoy] If a plant failed in the output of specific items and in contract obligations but fulfilled the plan in rubles, then it is "in the game!" Its labor productivity and wage fund grow. But if it fulfilled the product mix target and contract obligations but did not reach the plan in rubles, then it "burns" the basic indicators and the

wage fund is decreased. Hence, the goal of enterprises is: Fulfill the plan in rubles at any cost!

[Question] How can you explain the increase in prices and the "erosion" of an inexpensive assortment?

[Valovoy] Setting prices too high and "erosion" of an inexpensive assortment are two of the main directions of twisting non-labor production volumes in rubles, which is the easiest way of protecting wages for a collective and fulfilling the growth rate of production in rubles outlined by the Law on the 12th Five-Year Plan. For example, labor costs for a cake of 1-ruble soap are roughly the same as for a cake of 20-kopeck soap. But in rubles, the cake of expensive soap yields the same wages as 5 cakes of the inexpensive soap. Another example. According to calculations of the All-Union Scientific Research Institute of Market Conditions and Demand, the increase in retail prices between 1971 and 1975 gave about 30 percent of the growth in commodity turnover, more than 60 percent in 1986-1987, and more than 75 percent in 1988.

[Question] What do you think about the idea of N. Shmelev and a number of other scientists about credits for importing consumer goods?

[Valovoy] Unfortunately, we have brought the economy to such a state that the country cannot function normally without importing grain, meat, oil, certain medicines, and a few other things. As far as proposals about loans for importing consumer goods in order to propagandize and "support" faith in perestroika are concerned, they maybe are being proposed by people totally unfamiliar with the economic situation in the world or in the excitement of searching for popularity. We are in debt enough already! During the course of perestroika we must establish the principle: As we work today, so we will live tomorrow!

[Question] You write that the second important direction in twisting the volume in rubles without increasing real output is repeated accounting. Just how is this manifested?

[Valovoy] Specialization of production has resulted in the fact that raw materials, ore, for example, before being delivered to the consumer in the form of an automobile, passes through up to 10 enterprises during its manufacturing path, and each of them includes its value in the production volume. According to the reproduction schemes of Marx and Lenin, which we recognize in words but ignore in practice, the sum of the repeated accounting is not included in the value of the gross social product. Value calculations made based on indicators including repeated accounting of objects of labor distort the real picture in the economy, like a distorting mirror.

[Question] Gross production was long ago replaced by sale volume. Why are we again and again talking about the gross?

[Valovoy] Gross, commodity and realized output—these are sisters of different ages. Each has its specific features and purpose, but there are no fundamental differences between them. They all include repeated accounting and are virtually unsuitable for measuring economic growth and estimating and stimulating the work of enterprises and sectors. Moreover, when we talk about the **gross approach**, we have in mind not only artificial twisting of the volume in rubles. The gross is diverse. In the pursuit of tons of ore and coal, they are pretty well diluted with rock. Tons of grain, sugar beets and tea, in their consumer characteristics may be two to three times above average, but the pursuit for tons "stifles" quality. In short, the gross approach reflects the extensive path of development and is an impediment to intensification of production.

[Question] Capitalist countries use value indicators to measure economic growth and labor productivity. Why in our conditions do they distort the situation in the economy like a distorting mirror?

[Valovoy] Indicators including repeated accounting of value are not used anywhere for this purpose...

[Question] But net and standard net output are used. But for some reason they do not work well for us. How can you explain this?

[Valovoy] Capitalist countries make calculations for economizing on every minute of labor costs and every gram of raw material per unit of output. The economizing of living and materialized there determined the growth of its productivity. Pay depends on the quantity and quality of goods produced. It does not matter to a plant or corporation what the rates of growth of national product or national income is in the country. Therefore, the value indicators there and, consequently, the rates reflect the real processes taking place in the economy like meters.

But we have this placed upside down. The necessary sums for filling the rates are calculated on rates set from above, and wages and other forms of incentive are "tied" to them. And the twisting of rubles began! That is why our value indicators and the rates determined on their basis are like speedometers that are turned up for the sake of wages and saving gas to sell and receive bonuses for "above-norm" mileage on the rubber.

Value indicators, including those which include repeated accounting, are like meters intended for monitoring and analyzing certain processes in economic activities. But we cannot manage without the cult that is used to try to monitor all the processes. Gross production was replaced by realized production in 1965, which was replaced in 1979 by normative net output. Now the cult is a commodity cult, and with the 13th Five-Year Plan we will make net output a cult. Is it really possible to determine the condition of health by temperature and pulse alone?

[Question] Price increases, "erosion" of inexpensive assortment, and twisting of the gross also existed earlier. But why has this process intensified and accelerated during the course of perestroika?

[Valovoy] The intensification in the economy, in my opinion, is caused by a number of objective and subjective factors. According to dialectics, quantity turns into quality. The 100-billion budget deficit, state domestic debt exceeding half the country's annual national income, inflation, and imbalance did occur yesterday. They are the essence of "economical economics," which was defined by the principle of "the greater the waste, the 'higher'...the efficiency." In 10 years, from 1974 to 1984, the country received \$176 billion from oil, not counting revenue from the sale of gas, timber, and other resources. The currency earnings from the steadily increasing revenue from spirits enabled the previous leadership of the national economy for the time being to stop up the holes in the economy and create an outwardly prosperous picture. But in actuality, the present leadership inherited a sick economy unable to function and almost a 20-billion currency debt, for which it has to pay considerable interest. Instead of commodity-money relations, **money-commodity shortage relations** widely developed. This is the objective factor. A subjective factor should also be added to it. During the course of reform, the influx of unearned money into circulation noticeably intensified.

[Question] In what way?

[Valovoy] Instead of establishing a direct dependence of the wage fund on the quantity and quality of goods actually being produced, we "tied" it even more strongly to the volume in rubles. Therefore, the gap between money incomes and commodities is growing more rapidly. Last year, the increase in production of meat and cheeses was 4 percent; for sausage products, animal oil, and dairy products it was 3 percent; for pastry products it was 5 percent; and the increase in personal income was higher than the 2 previous years together. Currency emission doubled compared to 1987, and increased fourfold compared to the average annual emission in the 11th Five-Year Plan. All this could not help but exacerbate the previous ailments in the economy and further destabilize it.

[Question] It has been stated in the press that the socialism we have built does not correspond to Marxism-Leninism. Others, conversely, assert that it is built in strict accordance with the teaching of the classics, but life, they say, has shown that the new system does not have the advantages about which we have written and spoke. What is your opinion on this account?

[Valovoy] The founders of scientific communism, Marx and Engels, wrote in the "Communist Party Manifesto:" "...Communists can express their theory by one tenet: abolition of private property. The question of property is the central question of any revolution. Today, no one

can deny that the Great October Socialist Revolution was the greatest event of the 2000-year history of our era. For the first time in the history of humankind, it transferred the means of production into the hands of the people and thereby created conditions for forming socialist production relations precluding exploitation of man by man.

[Question] Do the production relations we have created contradict the directions of the classics?

[Valovoy] The classics do not contain any directions on this account. They not only did not try to predict the future forms of relations, but also condemned such attempts on the part of other specialists. In an interview by a correspondent of the French newspaper LE FIGARO, Engels said: "We are **advocates of constant, continuous development** and have no intention of dictating to mankind some definitive laws. Preconceived opinions with respect to the details of a future society? You will not find a hint of them with us. We will be more than satisfied when we are able to transfer the means of production into the hands of the entire society..."

Lenin was just as categorical on this account. Therefore, our production relations and methods of economic management cannot correspond or not correspond to the directions. Let us examine how much they contradict the objective economic laws and perhaps...common sense. Attempts by individual writers on social and political affairs, and sometimes even Utopian-socialists, to blame this on the classics is a clear indication of a lack of understanding of the essence of scientific communism, its creative nature and advantage.

[Question] Does it not seem to you that a situation has taken shape in economic science similar to that which until recently existed in biological science? Only in one case, the development of world science helped us to smash the charlatans from biology, and now we have to investigate the seekers of the philosophers' stone in economic science?

[Valovoy] The situation in economic science is greatly similar to the way it was with biology. But here we can borrow much from economic science abroad, taking into account the specific features of socialism, of course. Our economic mechanism ignores Marx's theory of labor value. But it is used extensively on the micro-level in developed capitalist countries. There, in my opinion, it has been brought to perfection taking into account the achievements of scientific and technical progress. Therefore, Lenin's appeal to learn organization of production from capitalists is now a hundredfold more important than before. After becoming familiar with the accounting methods of the well-known American economist W. Leontief, I told him: "You have perfected practical use of Marx's labor theory of value!" He responded: "It has turned out to be imperfect under today's conditions, since there are now virtually no free gifts of nature. Take water purification in Moscow. This is an entire sector.

Free and unlimited consumption of water has contributed to the waste of this most valuable product. In addition, Marx did not take into account expenditures on ecology, but today they are an important expense item in many sectors..."

[Question] What can you say about practical realization of the targets of the 12th Five-Year Plan? Will they be fulfilled or not?

[Valovoy] I have already written that during the years of my scientific and journalistic activities—from the 6th through the 11th five-year plans—there has not been a case in which the targets for production of the most important types of products and commissioning of projects were fulfilled. Judging by the results of 3 years, they will not be fulfilled in the 12th Five-Year Plan either. This is what creates a "plan anarchy" for us.

[Question] What about rates of growth?

[Valovoy] The average increase for 1986-1988 was 3.6 percent for national income, 4.2 percent for industrial output, and 3.8 percent for social labor productivity; but fulfillment of the 5-year plan required averages of 5.3, 5.0 and 4.9 percent, respectively. Forced "stretching" of the rates is inconceivable. Last year, plan shortages were 8 billion for food commodities and nearly 2 billion for non-food commodities, and shortages in contract deliveries of industrial products were many billions, but industry fulfilled the plan in rubles. Is this "fulfillment" of much use?

[Question] How do you rate the second model of cost-accounting?

[Valovoy] I already wrote in "Pyramid" that this is not a cost-accounting model, but a procedure for distributing income, that is, one of the principles of cost-accounting activities. All economists and practical people agree unanimously that the existing prices are not scientifically based—some are set too high, others set too low. Therefore, the introduction of real cost-accounting must begin with price reform. But we have put the cart before the horse. If we assess the second model as a principle of payment, in my opinion, it is theoretically not sound and practically harmful, since it ignores the law of distribution according to work done and opens up great possibilities for an influx of unearned money...

[Question] What would you like to say about desires for the USSR Congress of People's Deputies?

[Valovoy] Our economy has been ailing for a long time. After accurately determining the diagnosis, for which we must stop the turning of the speedometers and determine the real situation in the economy, we should prescribe a strict course of treatment, not ruling out some bitter medicine. Therefore, it seems advisable to adopt at the Congress an emergency program for stabilizing and balancing the national economy, a program

structured not on **cost principles** but on **goal-oriented principles**. Priority should be given to satisfying the requirements for wheat, meat, vegetables, and housing. The concept of the future development of the country and regions should be examined from these positions.

[Question] What do you think of the proposals of scientists who oppose state orders and advocate full economic independence of enterprises?

[Valovoy] Most negatively. They are "pulling" us toward early capitalism, which developed on a base of small shops and manufactures. Is it really conceivable to introduce methods of free competition into the giant-monopoly structure that has been established in our country? It is madness! It is hard to grant enterprises and organizations more independence than they were given in Yugoslavia. Incidentally, the principle of our second model of cost-accounting has been in use there for more than a quarter of a century, only with a more precise name—"Model for Distribution of Gross Income of an Enterprise." Their "Market Economy and Self-Management System" undoubtedly has positive aspects, but overall the course toward eliminating centralized control and planning, in my view, has not withstood the test of time. We should study it closely and draw practical conclusions taking into account the specifics of our country. On the other hand, it is very important also to consider the experience of developed capitalist countries where firms and corporations literally hunt for state orders and give bribes for them. There the process of integration from firms and concerns to countries and regions steadily expands the boundaries of planned management. W. Leontief, who has fulfilled orders for many countries, said in a conversation with us that up to 600-700 sectorial balances for product groups are drawn up in developed capitalist countries, and in Japan the number is as high as 2,000.

[Question] What do you see as the guarantee that the spending and waste mechanism will be dismantled this time?

[Valovoy] Mikhail Sergeyevich Gorbachev figuratively called **glasnost** the hero of the 19th Party Conference. In doing so, he urged us to analyze critically and fundamentally not only the successes but also mistakes and misdeeds made during the course of perestroika. I would call democratization and glasnost the standard-bearers of perestroika in all spheres of activities. But in the economy, an objective factor should be added to this. We simply no longer have the abundance of material and labor resources needed to satisfy the people's most urgent needs by previous methods of economic management. In other words, today there is no alternative but to put an end to the wastefulness of the diverse gross and to put the economy on lines of intensification.

## INVESTMENT, PRICES, BUDGET, FINANCE

### Commodity Shortages, Budget Deficit Give Rise To Inflation

18200195 Moscow *EKONOMICHESKAYA GAZETA*  
in Russian No 5, Jan 89 pp 13-14

[Article by E. Figurnov, doctor of economics: "Goods; Prices; Inflation"; first three paragraphs are introduction]

[Text] Lately, we have been hearing the words "shortage" and "inflation" much more frequently. And for good reason.

The situation in consumer and producer goods markets is getting worse. The list of hard-to-obtain goods is growing, while the list of those that are available is shrinking. More and more frequently we hear that we will need to "find" the item we need. Overall, both consumers and producers are feeling the pinch.

In addition, prices are creeping steadily upward, and we are able to buy less and less for the same amount of money. Buying power per unit of money is dropping—a sure sign of inflation.

There is no question but that shortages and inflation have been problems for a long time in the USSR. They are chronic ailments that we have inherited from our bureaucratic system of economic management. And while we have begun discussing shortages in public, not a word is said about inflation, which is treated as something completely alien to our system of economic management.

Shortages have been a part of our economy since the 1930's. Of course, the areas experiencing a shortage of goods are varied, and special aggressive programs would periodically enabled producers to meet the demand in these areas. But shortages would quickly develop in others.

Prices also stayed constant. From 1923 to 1928, they grew by a factor of 1.3. Between 1929 and 1940, prices on heavy industrial goods increased by a factor of 1.4, while retail prices grew by a factor of 6.4. Yet in the period spanning 1940-1987, the state wholesale index grew by only 1.4 percent, and the retail index by only 1.55 percent.

However, it behooves us to bear in mind that these state statistical agency indexes reflect only changes in the prices of a single product over time. They do not address the fact that prices for new products are often in excess of their value to the consumer. The greatest hidden price increases are found in the construction, machine building, and light manufacturing industries.

Prices for food are also rising. According to studies of family budgets, the average prices paid for certain items in state and cooperative stores, as well as at kolkhoz markets, rose between 1970 and 1987 as follows: beef—2.16 to 2.91 rubles/kg, pork—2.34 to 2.89 rubles/kg, mutton—2.06 to 2.53 rubles/kg, sausage and smoked meat—2.44 to 3.58 rubles/kg, potatoes—17 to 29 kopeks/kg

Under perestroika, soviet citizens' unhappiness with shortages and inflation has grown faster than the shortages themselves. More and more frequently, the people are openly, objectively, and with ever greater moral right demanding that they be given the chance to freely purchase what they need. The shortage problem is turning from a purely economic issue into a social and political one.

### What Are The Reasons?

I would like to repeat that shortages and inflation result when the volume of goods, calculated in the prices of the previous reporting period, is lower than demand; that is, lower than the sum consumers are willing to pay for the given volume of output. This gap between volume of output and the volume of disposable income may be partial or complete.

When there is a partial gap, none of a particular brand or item will be for sale, although others that consumers can use for satisfying the same needs will be. For example, if the toothpaste a buyer prefers is not available, but another is, the buyer has to purchase what he finds, even at a higher price.

When there is a complete gap between the volume of goods and disposable income, the buyer is left with involuntarily unused money. (This does not apply to money saved for durable goods or to money set aside for a "rainy day.") **Involuntarily deferred demand refers only to money a buyer wishes to spend, but cannot due to shortages and unavailability of the item he wants.**

A shortage creates a "black market" and causes speculation and corruption. It reduces the incentive to earn more, and in this way undermines efforts to encourage more effective economic management and greater economic growth. For this reason, any country that has a centrally managed economy and lets disposable income overtake the volume of goods for sale will see, to one degree or another, either constantly or periodically, increases in prices and inflation. As they say, you have to pay the piper.

In countries with a market economy, inflation pays the amount by which disposable income exceeds available goods, restoring the equilibrium between them with new prices. The shortage then vanishes. Seen in this way, inflation is a tool used to normalize economic activity and maintain market equilibrium. However, the natural course of this process may—and does—culminate in an

"inflationary spiral," a situation in which equilibrium in one industry causes disequilibrium in another. The result is a domino effect that returns to the original industry, beginning the next round of rising prices.

In our country, inflation does not pay the amount by which disposable income exceeds available goods. This causes the shortage to continue or even worsen, compelling individuals to defer their demand.

And just how can disposable income exceed available goods in a planned economy? It would seem that full khozraschet would only permit enterprises to obtain a profit when they sell the goods they produce, and prohibit revenues that exceeded the volume of goods manufactured. By rights, the centrally planned nature of our economy ought to prevent the government from circulating "empty" money; that is, money without corresponding goods that can be purchased. Instead, its spending should be brought strictly in line with revenues and the volume of goods produced.

Unfortunately, it is these principles of central economic planning that have been ignored for such a long time. Let us return to our statistical data for recent years (See table).

Before commenting on this data, I would like to clarify several points.

A problem we face is that national income growth rates are calculated in so-called equivalent prices. For a given item produced every year at some point, they are identical. But for new products, the equivalent price is considered the level set in the first year of mass production. This does not take into account the relationship between price changes and improvements to the item, thus making it impossible to compare the cost of certain goods at certain points in time. As I noted, the prices of goods made by the machine building, construction, and light manufacturing industries rise faster than their value to consumers. For this reason, adjusted national income growth rates show a somewhat unrealistically high volume of material goods. A more precise figure for the rate of national income growth would be 106.5 instead of 194, if not lower.

| Indicator                        | percent,<br>1985/1970 | percent,<br>1987/1985 |
|----------------------------------|-----------------------|-----------------------|
| Produced national income         | 194                   | 106.5                 |
| National economy wage fund       | 204                   | 107.5                 |
| Entitlements and benefits        | 287                   | 113                   |
| Bank loans                       | 414                   | 83                    |
| Government spending, total       | 250                   | 112                   |
| Government spending, breakdown   |                       |                       |
| -on the economy                  | 294                   | 112                   |
| -on social and cultural programs | 225                   | 111                   |

All other indicators are dealt with in their actual amounts, so increases reflect a shift in the money volume.

The table makes it clear that **all indicators of money volume rose significantly faster than national income—their financial anchor.** For the period we studied (1970-1987), national income grew by a factor of 2.07, the wage fund by 2.19, entitlements and benefits by 3.24, and government spending by 2.8. Government spending on the economy rose by a factor of 3.3. In 1986-87, government spending rose by 44.4 billion rubles, while national income in real terms increased by only 21.1 billion rubles.

**In the last few decades, rising government spending without adequate monetary resources has become a major source of shortages and inflation.** For 1989, spending is projected to exceed income by 35 billion rubles. Also, the government has decided to cover its spending by using 63 billion rubles from its credit fund, money which comes primarily from individual deposits to the Savings Bank. The purpose of this fund is to serve as a credit resource for the economy, not a means of providing the state with money for its regular "unidirectional" spending needs.

As USSR minister of finance B.I. Gostev admitted, **government spending is higher than the level of income needed to ensure long-term growth without shortages.** Specifically, government spending exceeded such sources of income as tax on profits, sales tax, taxes on cooperatives and public organizations, income taxes, and social security funds. The amount of the difference between spending and income was 24.6 billion rubles in 1970, while in 1980 it was 69.7 billion, and in 1987 143.8 billion. Some of the difference has been covered using money from the credit fund, making it reasonable to conclude that this source has essentially been exhausted.

**Credit has become another pipeline through which "empty" money is put into circulation.** From 1970-1985, the volume of bank loans rose twice as fast as production, and the economy was flooded with cash. In 1970, bank loans represented 45.9 percent of circulating capital, while in 1985 such loans accounted for 57.5 percent. In industry, these figures were 43.6 and 51.1 percent respectively. In agriculture they were 25 and 61.7 percent, and in construction they were 21.8 and 75.2 percent respectively.

Although the total issued in banks loans has begun to contract in recent years, it is still too high, with credit being given to enterprises that are unable to pay it back.

#### Who Benefits From Shortages and Inflation?

If shortages and inflation are not abating, and instead are getting worse, it is reasonable to assume that somewhere

in society there are people who benefit from the situation, and who therefore, whether consciously or unconsciously, encourage it.

Who in our country would benefit from shortages? Clearly, it is not the consumer! Consumers only suffer when there are shortages: they waste their time and mental energy on searches for the items they need and standing in line. Frequently, they are degraded and forced to quietly accept the boorish behavior of monopolists—the sellers—since failure to do so eliminates any possibility of obtaining the desired item.

It has become commonplace for people to take special trips from areas where there are shortages to those where the items they need can be found. Various unofficial organizations take advantage of the existence of this situation to inflame hostility between nationalities, to suggest that authorities are unable to combat speculators, or to accuse officials of not caring about the interests of the people living in their republic, city, or rayon.

Shortages force consumers to buy the goods they need from speculators. **It is patently clear that shortages benefit everybody able to sell goods at market prices.**

**It is less clear that shortages also benefit adherents of the bureaucratic management system or opponents of perestroika.** It is they who are the driving social force of our society—a force that sometimes creates and perpetuates artificial shortages. If we were to merely eliminate shortages, most of this huge army of administrators and supervisors would become superfluous. But then they have no skills other than distributing, redistributing, and supervising.

A true reorganization of the economy would involve eliminating shortages, launching wholesale producer goods trade, flooding the marketplace with consumer goods, and allowing buyers themselves to regulate prices through agreement with producers. Of course such a reorganization would strip the bureaucrats of their honorifics and send them packing, forcing them to find other employment. And as long as they see this untantalizing specter before them, the adherents and exponents of the bureaucratic management system will do everything in their power to perpetuate shortages.

The problem, then, is not individuals, but a bureaucratic management system which not only benefits from shortages, but whose existence is predicated on them. Naturally certain bureaucrats suffer from the shortages like everyone else, but the position they occupy in society turns them against their will into “experts” in the maintenance of shortages.

Like shortages, inflation also hurts consumers, since it reduces the standard of living of those not in a position to increase their incomes. This includes primarily retirees and fixed-rate personnel. Low-paid workers are hurt

the most by inflation. Many foreign countries have a system in which fixed rates rise in proportion to price index increases, thus insulating employees in this category from the effects of inflation. We do not have a system of this kind, since, until recently, we have denied the presence of inflation (despite the evidence to the contrary). This has kept us from taking the steps necessary to protect the interests of the worst paid segments of the population.

But the bureaucratic system has already been “battling” inflation, using its purely bureaucratic techniques. That is, instead of cutting the amount of “empty” money emitted, prices are stabilized. In fact, we have even seen the appearance of theories of stable prices for raw materials and essential consumer items. Of course, the need to provide material incentives has made it difficult to keep prices from changing. And this in turn has grossly distorted prices, obliterating any link between the price of an item and the cost of the inputs. Prices have ceased being a mechanism for establishing a balance between supply and demand, and instead have become a book-keeping tool. Ultimately, this reinforces the importance of the economic bureaucracy and helps the bureaucratic management system consolidate its positions.

As we can see, the bureaucratic system’s “battle” against inflation plays a secondary role to its sense of self-preservation. The techniques it employs serve the interests of the bureaucrats: they receive stable rate salaries and thus have an interest in maintaining stable prices.

#### What Should We Do?

It is obvious that we need other techniques for battling shortages. We must stop releasing “empty” money into circulation, eliminate the budget deficit, and ensure that personal income is in line with the availability of consumer goods.

The January and June (1987) plenums of the CPSU central committee both undertook the job of normalizing the monetary volume situation and eliminating the gap between goods and the money to buy them. And the 29th CPSU All-Union Conference stated that it would draft and implement a program of restoring the financial soundness of the economy.

If these measures were implemented, they would enable the country to pull the rug out from under the bureaucratic apparatus. Yet the program of restoring financial soundness has not been drafted, and the 1989 Plan has outlined progress in only one of the many interrelated areas. Production of consumer goods and services will be increased dramatically. This represents a necessary condition for eliminating shortages and inflation, but not a sufficient one. If, for example, output is increased by a factor of two, but at the same time budget deficit-related disposable income rises by a factor of 2.2, shortages of goods and inflation not only fail to drop, they rise by 10

percent. And instead of shaky ground, the bureaucratic system of management finds itself on solid bedrock.

**First and foremost, the program of restoring financial soundness must eliminate the budget deficit. Secondly, it must eliminate the imbalance between money paid in salaries and the volume of goods available.**

There are two ways to eliminate this imbalance. The first is economic and involves inflation and various voluntary deferments of spending. The second is bureaucratic and involves forcibly removing money by means of currency reform, discontinuation of the remaining enterprise incentive funds, etc.

Where can we save? We will look at several methods of restoring financial soundness from this point of view.

First and foremost, we must reduce the government spending used to finance capital investment. Since the remaining enterprise incentive funds are continuously growing (for example, in full-khozraschet industrial enterprises alone, remaining funds as of 1 October 1988 were 11.5 billion rubles), as are the shortages of construction materials and equipment, we feel the only path to a satisfactory economic situation lies in cutting state-financed capital investment in the economy by at least 20-30 billion rubles per year.

In the future, the state budget will provide capital investment funds only for: structural reorganization of the economy; implementation of critical scientific and technical programs; development of budget institutions; and construction of free housing. Everything else will have to be built using money from enterprises, individuals, and loans.

Finally, we have to bring the volume of capital investment in line with our resources. This is necessary to provide enterprises with the material resources and contracts they need to support their production, science, and technology funds, as well as their social welfare funds.

Second, we can save by implementing the party- and government-endorsed policy of reducing defense spending—a policy predicated on peaceful coexistence and defensive sufficiency.

Third, we can put an end to unprofitably operating enterprises. Decisions have already been made in this regard. By 1989, the bulk of collectives are supposed to be operating without losing money, while others—the largest enterprises—have until 1990. Plants that are unable to stop losing money will be placed under the control of economically sound enterprises, put up for rent, or liquidated in accordance with the USSR State Enterprises Law.

As a USSR Supreme Soviet session stated, we will be able to cut spending by 10-11 billion rubles if we eliminate unprofitably operating enterprises.

Other, equally important financial recovery programs should be designed to increase management performance and raise (at stable rates) both enterprise and state revenues. In 1986-87, the amount of inputs used in manufacturing goods (depreciation included) not only failed to decline, they actually rose. For this reason, **within the next two or three years, it would be advisable to have all enterprises adopt the second form of khozraschet and lease arrangements, in accordance with which pay would be tied not only to increases of output, but to savings of resources as well.** Cutting resource utilization by one percent will enable us to increase national income and state revenues by two percent, while permitting the budget deficit to be lowered by about 10 billion rubles per year.

In point of fact, the 1989 State Plan Law has already charted a course in this direction. The Law requires that the USSR Council of Ministers, the union republic councils of ministers, and USSR ministries, state committees, and departments implement measures to expand usage of the khozraschet system, which is based on standard income distribution rates and long term lease arrangements. It is critical that there be no delays in executing this article of the Law.

The **cooperative sector** is starting to play a more important part in the economy. In 1988, cooperatives producing goods and services earned ten times the profit they did in 1987. It is obvious that like the personnel of state enterprises, the personnel of cooperatives will have to do their part to support state income. At the present time, however, our country has not completely extended this requirement, which is characteristic of every normal country, to the cooperatives. Thus, while state-run enterprises give the state 43 percent of their net income on the average, cooperatives give only 3 percent.

Because of advantageous tax benefits, cooperatives are much more competitive than state-run enterprises, and employees in the two sectors are set on an unequal monetary footing. As an example, employees of cooperatives earn twice or three times as much as public sector employees doing the same job. And because they receive special tax benefits, employees of cooperatives have created an invidious moral and psychological situation, with workers highly critical of anyone involved in a cooperative.

In the rest of the world, state enterprises and cooperatives are taxed at the same rates, making real competition between them possible. In the CMEA member-countries, the income of cooperatives is taxed at a rate of 40-60 percent. In some socialist countries, cooperatives also pay for fixed capital, manpower, etc. It is evident that in resolving the issue of how to tax cooperatives, we

must be duly aware of what other countries have done and act in accordance with economic laws, not contrary to them.

### Earned Money and "Empty" Money

Economic recovery is heavily dependent on our putting an end to emissions of unearned money into circulation.

Credit is of paramount importance here. Instead of using credit to put out the financial brushfires ignited by the bureaucratic management system, we need to use it to stimulate effective management. Credit should be used in the following ways to accomplish this:

- (1) Loans must come from freely circulating funds, not from currency emissions.
- (2) Loans must be given only to enterprises that will pay them back in accordance with deadlines.
- (3) The interest rate on loans must help maintain a balance between freely circulating funds and the demand for these funds (presently, the interest rate does not serve as an equilibrator, since it is so low).

So the fundamental principle of intelligent management is this: individual incomes cannot grow faster than the output of consumer goods and services paid for by individuals spending their incomes. Unfortunately, there are still many quarters in which this principle is not accepted. In 1988, wages and payments from state social service funds grew faster than the production of goods and services, with the result that the consumer goods and services availability situation in the marketplace reached critical proportions.

Hence, the key issue is how to regulate individual incomes and keep them from overtaking the production of goods.

At enterprises operating on *khozraschet* principles, the simplest way of regulating wages is to establish a standard ratio—not to exceed one—between the amount the wage fund of any enterprise grows and the amount by which its net output (income) increases. This is similar to the requirement that increases in pay be accompanied by boosts in productivity. The standard ratio between pay and productivity is set in accordance with the USSR State Enterprises Law.

The press has printed more and more articles against this form of regulation, and even some ministers oppose it. As an alternative, taxation is frequently proposed. Clearly, the form of regulation is immaterial. What is important is that the objective be reached; that is, that the net output (income) of enterprises be higher than wages. Unfortunately, scholars have not articulated a system which would enable this objective to be reached.

An equally pressing problem is regulating the portion of individual income coming from state social service funds. In our opinion, we need to keep close tabs on what percentage of the Plan this income represents. Payments from state social service funds (entitlements, retirement, and other benefits) have to grow at a rate that is somewhat slower than the national income growth rate. This has not been the case. From 1980-1987, national income (in real prices) grew by 30 percent, while state social service funds grew by 39 percent. This trend continued in 1988.

Financial recovery is heavily dependent on individuals voluntarily deferring the use of their incomes. Along with various term deposits in savings institutions, stocks offer a promising way to defer spending. Currently, the law only permits the purchase of those shares of a collective that have been distributed to the members of the collective. Especially attractive are those shares used to expand production of consumer goods (automobiles, televisions, building materials) which also give the holder priority in obtaining these items. This category of shares, we should note, does not even have to be interest bearing. We should note that interest on shares purchased by individuals is nothing more than payment for voluntarily their deferring spending on consumption.

Among the measures serving the above-mentioned purposes is the recently approved policy of permitting private ownership of apartments in state and publicly owned buildings. To move further in this direction, we will need to bring construction of cooperative housing to a level at which everyone wishing to purchase an apartment will be able to do so without delays.

We need to compromise with those workers who wish to be able to pay for services currently offered free, and increase the number of athletic facilities, clinics, etc.

I would particularly like to address programs aimed at enhancing social justice. Let us use the current policy governing payment for housing and maintenance expenses as an example. Some people own their housing either individually or as part of cooperatives, and are required to cover all construction and maintenance expenses. Others with exactly the same income receive their housing free and cover only some of the maintenance expenses (state housing maintenance subsidies total 10 billion rubles per year).

Of course "free" only means construction and maintenance costs are not borne by a specific family, but by working people, who cover them to the extent that they produce the national income. If there were no appropriations for "free" housing, wages would be higher. Briefly, then, working people who pay for and maintain their own housing have to use a certain portion of their net output to pay for the "free" housing of others. In other words, they pay twice.

In other socialist countries, housing and housing maintenance are paid for from personal income. We too would be well advised to institute a policy whereby families with average per-capita incomes over a certain level (100 or more rubles, for example) would not have the right to free housing, but would have to pay for it instead. This would result in a 10 billion ruble cut in the budget deficit. Toward this end, we should also require that state spending on housing maintenance be completely reimbursed. This would save close to another 10 billion rubles.

Food subsidies are also distributed unfairly, since they are given only to persons living in cities where meat and milk can only be purchased at state-set prices, regardless of their per-capita income. Yet there are many areas where these foodstuffs cannot be purchased in stores at state-set prices. As a result, the policy hurts the people in these areas. The reform of the mechanism used to set prices should dramatically improve this situation, but it would also help if food were sold at market and cooperative prices in all cities.

Finally, we need to increase the social protections that insulate consumers from inflation. To this end, we ought to tie entitlements, benefits, and salaries to an inflation index. It is patently clear that we will have inflation until we end the budget deficit, bring individual income in line with production of consumer goods, and eliminate deferred demand. Inflation is the market's response to a money volume that is higher than the volume of goods, and, as experience at home and abroad has shown, it is impervious to bureaucratic measures.

Furthermore, if we employ bureaucratic measures and try to limit prices, introduce rationing, or use other food distribution techniques, we will be playing directly into the hands of opponents of economic reform and perestroika; that is, the bureaucrats, who constantly dream of new ways to expand their domain of distribution and redistribution.

#### **Price Committee Official Comments on Recent Price Decree**

18200235 Moscow *EKONOMICHESKAYA GAZETA*  
in Russian No 7, Feb 89 p 4

[Article by Ivan Ivanovich Gorbachev: "Protection of Buyers' Interests"]

[Text] A decree of the USSR Council of Ministers, "Measures for Eliminating Defects in the Evolving Practice of Pricing," was published the other day. Deputy Chairman of the USSR State Committee on Prices comments on specific points of this decree.

We all note with growing concern such undesirable trends for healthy development of the economy as the increase of prices, the degree of imbalance of the market and the decrease of the range of inexpensive goods. The "Economic Gazette" has published some materials

which present an analysis of the causes of the complex situation existing in the consumer market and inflationary processes. Control of these negative factors depends greatly upon intensification of price control which, it must be admitted, was weakened, and on the elimination of some defects found in the process of establishing a management mechanism on the principles of complete profit and loss accounting and self-financing and the development of the cooperative movement. Adoption of the decree is aimed at solution of these problems. We may single out two typical features which follow from it.

First, the decree is directed at guaranteeing the economic concern of enterprises, organizations and cooperatives in increasing the output of industrial products and in expanding the assortment of goods in public demand and services provided. Provision of incentives for enterprises to produce and saturate the market with goods for children and for elderly persons is being intensified.

Second, special attention is being given to protection of buyers' rights. Shop counters should not contain expensive goods of poor quality. Any kind of extortion of capital by individual enterprises and organizations by means of use of overstated contractual prices and different unjustified price increases for production and services must be stopped.

The government's decree increases the role of state orders in setting price levels in the national economy and also increases of volumes of production of goods in public demand, first and foremost in the output of goods for children and for elderly persons at socially low prices. Beginning in 1989, a section of the state law concerning light industry enterprises sets the task of producing the most important groups of goods at socially low prices and of establishing a maximum price for them.

For example, it provides for obligatory output of coats and short coats for elderly persons with a retail price of up to 100 rubles (without the cost of the collar); dresses, gowns, woolen trousers at 80, 45 and 23 rubles respectively; men's shirts—6 rubles; light boots—40 rubles; shoes, button shoes and high shoes—10-15 rubles. Councils of Ministers of union republics may add to this list by agreement with the republican council of trade unions.

It goes without saying that the establishment in the state order of the task of producing the goods indicated cannot guarantee the appearance at shops of such goods in sufficient quantities. Therefore, in order to create economic personal interest of enterprises and industrial combines in the acceptance and fulfillment of state orders for output of such articles, there were implemented, since 1 January 1989, increases in the wholesale prices now in effect on basic groups of goods for children and elderly persons and also additional rebates from retail prices of fabrics and materials. This will make it possible to ensure equal advantage of production of such goods in comparison with other industrial products. The

increases indicated will be paid off by enterprises at the expense of a turnover tax and, in some cases, it will come from the state budget.

It is significant that the state orders are becoming generally economically advantageous to light industry enterprises. Enterprises are permitted to reduce payments into the budget and, due to this, to increase profit remaining at their disposal in an amount of up to 10 percent (up to 3 percent of the profitable income under a profit and loss accounting form based on standardized distribution of income), depending upon the specific importance of the state order in the overall volume of production (fulfillment of work and services), expressed as cost.

Many critical remarks and the just indignation of buyers stimulated output of new forms of production at temporary (with allowances) and contractual prices with different indexes. Enterprises frequently converted the allowances and contractual prices into their own kind of channels for increasing prices since they did not match the required quality and innovation of the articles. Measures have now been taken to prevent this.

Let us say that it has been established that such production must have clearly pronounced signs of innovation, meet the fashion requirements and be of really high quality. In cases of discovery of facts indicating unjustified establishment of temporary and contractual prices and delivery of poor-quality industrial products with deviations from established standard samples, the prices will be reduced or cancelled. Violators now face sanctions in accordance with requirements of the USSR Law concerning state enterprises (industrial combines) for violating pricing discipline. Directors of enterprises and trade organizations have personal responsibility for the validity of setting temporary and contractual prices. Unwarranted multiplicity of labelling goods, prices for which are established by enterprises according to an agreement with trade organizations, - indexes "OM", "VK", "MOL" etc. are being abolished. Now only two indexes—"N" and "D"—will be used. The amount of temporary increases of prices for high-quality goods with index "N" is limited to 15 percent of the regular retail price. The increase may be in effect for up to 1 year (up to 2 years for furniture) on the basis of decisions of artistic and technical councils of enterprises with obligatory consent of representatives of trade agencies. Previously, such increases could be established to the amount of 30 percent and more and be in force for 2 years.

Contractual prices (with the index "D") for new, fashionable goods are being set directly by manufacturers and enterprises in agreement with trade enterprises and organizations.

Contractual and temporary prices for goods for children and articles for elderly persons on the list, stipulated in the state order, will not be established.

The role of trade organizations should be greatly increased in the process of establishing the level of contractual prices in accordance with the quality of the commodity and the public demand. They are obligated to be spokesmen for inquiries from the people. It was decided now to charge losses from decrease of prices for goods sold at contractual prices after decrease of demand for them completely to the trade discount fund. This will increase the responsibility of trade workers for selection of commodities and the soundness of contractual prices.

The USSR Ministry of Trade, the USSR State Standard, the State Commission on Prices, Councils of Ministers of union republics and autonomous republics, interested ministries and departments are charged with organization of regular examination of trade samples sold at temporary and contractual prices. This also makes it possible to control the conformity of established prices to the quality, innovation and consumption properties of articles and purchaser's demand. The wide-scale participation of the community (consumer clubs and societies and trade-union organizations) in the work of councils of enterprises and sectors in assessing the quality and innovation of goods and determination of the level of prices and temporary increases and also in examination of samples ordered places a reliable restraint on unjustified increases of contractual and temporary prices.

Measures are being taken to prevent an arbitrary increase of prices for potatoes, fruits and vegetables and thus covering damages and loss from mismanagement. Councils of Ministers of union republics and autonomous republics and executive committees of local Councils may, if necessary, establish seasonally differentiated maximum prices for these goods sold in the entire state retail network regardless of departmental subordination.

There are prospects for introducing proper order and strengthening discipline in the area of prices and rates on domestic goods, public utilities and other services provided to the people. In particular, Councils of Ministers of union republics and autonomous republics and executive committees of local Councils are charged with carrying out, in 1989-1990, recertification of domestic service and municipal services enterprises. It was established that prices for services could not be increased during transfer of enterprises, collectives and brigades in domestic service, municipal services and other sectors of the services sphere to new conditions of management and forms of labor organization and provision of labor incentives.

The decree provides for a complex of economic measures of influence on the level of cooperative prices. Priority in material and technical supply, granting of credit, tax and other concessions will be given to those cooperatives which sell their output and services at prices and rates no higher than state prices and rates.

State industrial combines and enterprises and also supply and sales organizations must, during conclusion of

contracts with cooperatives, ensure unity in principles of supply, sale of output and pricing under conditions established for state enterprises. Cooperatives working according to contracts with state enterprises and organizations may release raw materials and partly processed materials at wholesale prices without increasing ratios under conditions of transfer of products manufactured by them to these enterprises and organizations at state wholesale prices.

Perhaps problems of organization of appropriate supply of raw material and partly processed materials to cooperatives are being solved adequately for the first time. For example, non-food goods and foodstuffs in an adequate variety will be released by cooperatives for clearing from wholesale and small-wholesale depots (warehouses, specialized shops) of state trade and consumer cooperation. Executive councils of local Councils have the right to establish a list of goods which cannot be sold by cooperatives in retail and wholesale trade. This pertains mainly to scarce products and goods which still cannot satisfy public demand.

Executive committees are also given the right to establish maximum mark-ups for production of public catering cooperatives with consideration of the level of service as applied to state enterprises of appropriate categories but not higher than mark-ups for higher category restaurants.

The USSR State Committee on Prices is charged with establishment of mark-ups for goods sold by cooperatives without subsequent processing, allocated from state market allocations or purchased by them in the retail trade network (fruits, non-alcoholic beverages, mineral waters, confectioner's items, etc.). For example, non-alcoholic beverages, mineral waters and juices may be sold by public catering cooperatives at the purchase price plus a mark-up of not more than 10 kopecks per bottle; other food products, not cooked or processed by them, may be marked up by no more than 10 percent.

All of this will certainly help to reduce cooperative prices. Cooperatives must declare their income, which, henceforth, will be the basic financial document which determines their interrelationships with financial and banking agencies. The declaration states the amount of income of the cooperative, the personal income of its members and also of citizens working on a labor contract, in order to determine amounts of taxation and imposition of other compulsory payments.

Economic liability of the chairman and other members of the board of cooperatives for being an accessory after the fact by deliberately concealing income, for late declaration and payment of taxes and for violating bookkeeping and accounting rules is being increased. If violations of the procedure for establishing prices are discovered, the illegally obtained revenue can be deposited in the local budget.

Here it is appropriate to say that all of these measures are adopted in complete conformity with the Law of the USSR "Concerning Cooperatives in the USSR" and are not intended to limit or swaddle development of the cooperative movement in any degree. The topic of discussion concerns legal measures for squelching speculative and other negative occurrences which, regrettably, have become rather common and cannot be stopped without state intervention.

A different kind of attempt to increase prices without justification was discovered in production of industrial and technical items. Frequently, contractual prices are established for mastered, series production articles for which there already are price list prices. Contractual prices which significantly exceed the maximum price limit are also used. Therefore, the decree adopted increases the responsibility of both manufacturers of industrial and technical output and customers for sound formation of wholesale prices.

If, because of constructional or technological defects admitted by the manufacturer, basic parameters adopted for determination of the level of contract prices are not reached, the consumer has the right to demand a price reduction. Moreover, the manufacturer makes up the difference in prices for the entire volume of production supplied at the unsubstantiated prices. If the parameters of the new production are not achieved through the fault of workers-organizations, the amount of reduction of the contractual prices is exacted from them. When price list prices are approved upon expiration of the period in which contractual prices were in effect, only actually achieved indicators of efficiency, quality and reliability of the new articles will be considered. These indicators should be confirmed, without fail, by the basic purchasers of the output. The price list wholesale prices cannot be higher than the level of the maximum prices agreed upon.

Practical realization of measures for eliminating defects in pricing practice depends largely upon the status of work on control of the state discipline of prices in the national economy. What are the plans for work in this area? A unified system of price controls for the state as a whole is being created; it will include state, cooperative and public agencies. The USSR State Committee on Prices has the responsibility of organization of the monitoring of observance of pricing discipline and coordination of this activity, carried out by republican and local price-setting agencies, ministries and departments. Interaction of price-setting agencies with Councils of Ministers of union republics and autonomous republics is being intensified by executive committees of local Councils, agencies of public control and statistics and by financial and banking institutions. The public, including trade-union organizations, consumer societies and clubs, committees, groups and offices of worker's control (over production) and national control and public bureaus of economic analysis of enterprises will be extensively involved in this work. There must be created, in labor

collectives and organizations, an attitude of intolerance towards cases of violation of the state discipline of prices and the undeserved profits and revenue obtained as a result of these violations.

Statistical studies should play a significant role in the effective discovery of unwarranted increase of prices and rates in the national economy. It is no secret that we in this area, especially those in sociological studies, lag far behind foreign countries and, during adoption of crucial decisions, we experience, so to speak, informational "hunger".

Therefore, there are plans for significant expansion of statistical studies and an increase of reliability of data concerning the level and dynamics of prices in the country. This will permit timely analysis of price movements, the study of the effect on the development of the national economy and the standard of living of the people and timely prevention of attempts to raise prices and rates. Beginning in 1989, the USSR State Committee on Statistics will work out statistical information concerning the standard of living of the people with consideration of the dynamics of retail prices and rates on goods and services and also concerning the purchasing power of the ruble.

The government decree will make it possible to solve many problems of improving current pricing. However, complete elimination of the accumulating, over many years, distortions and disparities in prices and also proper adjustment of the economic mechanisms and economic relations between producers and consumers require complex price reforms as a component of economic reform. We shall not go into this.

#### **Price Committee Official Discusses Price Reform, Subsidies**

18200174 Moscow *EKONOMICHESKAYA GAZETA*  
in Russian No 4, Jan 89 pp 16-17

[Article by N. Chekhlov, department Chief, USSR State Committee for Prices: "Costs—Prices—Incomes"]

[Text] Price formation is among the most important and urgent problems in the present sharp turn in our country's life. It could not be otherwise, as prices are one of the central nerve ganglions in the economy. Not only economic, but also many social and political questions converge upon prices. They touch upon the totality of interests, general public, collective and private.

It is no accident that the problem of prices, especially retail prices, has become an object of active discussion not only among specialists, but broad public circles. Unfortunately this discussion is not always multifaceted, competent and objective. Frequently, emotions predominate, opponents positions are distorted, evaluations and conclusions are based upon isolated facts, without a thorough analysis of the economy and social processes.

Obviously, there must be more detailed, balanced and responsible approach to the price problem.

First, it should be finally made clear that it is necessary to radically reform price formation. How can this best be done? What will be the consequences of the intended measures, how will they be used in practical work?

#### **Why Is Reform Necessary?**

Many authors persistently claim that the goal of reforms in price formation is to increase prices. This, they say, will burden the public with all the difficulties in the economy's development and will inevitably hurt working people's material situation.

This evaluation of the task of price reform is not only distorted, but contradicts the decisions made by directive organs that any measures regarding prices should not entail reductions in the public's real income. To view perestroyka in price formation as a means for supplementing the budget makes it unacceptable from the very start and blocks any serious and impartial discussion of prices.

It is objectively the time for perestroyka in price formation. This means that prices should occupy a fitting place in the system for managing public production and actively influence improvements in its efficiency, become an effective tool for economic and social transformation and promote the maximum increase in the output of goods and services as well as improvements in their quality.

In the final account, the procedures and methods for setting price levels and relationships are determined by objective conditions in the national economy and the results attained. Recently there have been radical changes in the conditions for producing and selling output, there are new ways for solving questions in managing the economy and a new economic mechanism is being created. Clearly, in such a situation prices and price formation cannot be left unchanged.

The transition to primarily economic methods for managing the economy and the orientation towards the widespread use of commodity-monetary relations, full cost accounting, self-support and self-financing and other new forms of economic management have made it especially necessary to observe economic laws and rules in organizing economic ties and relations and has posed the question of prices' role in carrying out this task.

Which requirements is it most urgent to observe? Keep in mind that our enterprises are behaving as commodity producers, products of labor are produced for exchange and acquire the commodity form, have a value and price as the monetary form of this value. It therefore follows

that the most important law governed relationship inherent in contemporary production is the correspondence between socially necessary costs, the value of commodities and their price.

Another objective requirement is the equality between the total price of all commodities and their total value, the relationship between the public's effective demand and the supply of goods and services, with respect to volume, quality and assortment.

Only the observation of these law governed relationships will assure the normal development of production, the compensation of each normally working enterprise for the costs of producing and selling output, obtaining the needed profit and equivalence in exchange. Only under these conditions will it be possible to realize the socialist principle of distribution by labor, each worker's acquisition of part of the total product proportional to labor contribution and the effective economic stimulus for the development of everyone's labor activities.

#### **Distortions in Pricing**

Now, unfortunately, many important law governed relationships are violated. There are distortions in the economy and in prices, the public's effective demand exceeds supply. There are sizable disproportions between production costs and existing prices.

Money is lost in providing food, many children's goods, linen and silk, all urban passenger transportation, including the metro, and many residential and municipal services. State subsidies for money losing goods and services exceed 90 billion rubles annually, or 14.2 percent of national income.

Some participants in the discussion do not see any special trouble in the lack of correspondence between prices and costs or in subsidies, as losses from the production of some goods are covered by incomes from the sales of others. Moreover, this situation is sometimes presented as an advantage of socialism.

Yes, a planned economy does permit the conscious deviation of prices from production costs in order to reach specific economic and social results, to have a rational consumption structure and to first satisfy vitally important needs. However, this does not substitute for general law governed relationships and the need to strictly observe the relationship between costs and prices.

There can also be strictly limited deviations if there is a balanced evaluation of the situation, coordination in the use of all economic tools and stimuli. Today, however, the lack of correspondence between costs and prices and disproportions is the result of insufficiently regulated processes and uncoordinated management decisions rather than a well thought out policy.

Experience shows that violations of economic laws and requirements lead to huge losses and imbalances and hinder the normal process of reproduction. The first to suffer are sectors and subsectors with output prices lower than socially necessary costs.

The failure to observe equivalence in exchange between industry and agriculture, due to the prolonged use of low procurement and delivery prices and the resulting insufficiency of farm resources to compensate for production and labor costs is a basic reason for the acute lagging of the agrarian sector, the lowered prestige of farm laborers and the massive outflow of population from the countryside.

Attempts to support kolkhozes and sovkhozes with credits, all sorts of subsidies, the direct state financing of many farm costs have not given the expected results, but have led to the inefficient use of the resources allocated.

Here is another smaller, but characteristic example. We have suddenly discovered that the "mayors" of practically all cities, as if they had planned it, have taken a dislike to baths and started closing them, or remodeling them to be fashionable saunas. In Moscow alone the number of baths has been halved. The main reason is that they are losing money, although sometimes more seemingly motives are stated.

The deviation of prices from socially necessary costs prevents the proper measurement of costs and results, the evaluation of economic management decisions and technical measures, and the introduction of cost accounting at production operations. Prices become unreliable instruments for plan decisions.

#### **Subsidies and Social Justice**

Money-losing commodities, above all foodstuffs, and the payment of subsidies make it necessary to keep high prices for other items, including women's boots, undergarments and jeans. There are price distortions. However, this is not all. Subsidies are paid from general state income that could be used to increase wages and pensions. Subsidies have assumed huge proportions while wages and pensions remain relatively low and their growth retarded.

Recently, the growth in subsidies has markedly outpaced the growth in income from sales of goods at increased prices. This includes sizable reductions in the production of alcoholic beverages, reductions very costly to the state budget. There are also reductions in the profitability of many new industrial goods. This puts even greater limits on the state's ability to increase wages and pensions, in some cases making it necessary to increase prices in order to find resources to pay subsidies. The steady growth in subsidies leads to increases in the

relative amount of personal consumption spending independent of people's labor contribution, reducing the role of wages and retarding the activation of the human factor.

It is also important to stress that subsidies are distributed indiscriminately and very unevenly, a large share going to families with high incomes. It has been calculated that food subsidies for a family with an income of 50-70 rubles per person are only one-third as large as those for families with incomes of 150 rubles and more per person. This means that the present practice has elements of social injustice.

Subsidies and loss making operations make necessary a complex mechanism for redistributing resources and for having some prices which are either only for producers or only for consumers. This breaks the natural linkage between them, slows the reduction of production expenses and disrupts the correspondence between the structure of production and consumption.

The large gap between supply and the effective demand for many goods and services creates a mass of misfortunes and troubles, deforms the entire economy, way of life, the social value system and human relationships, causing extensive economic and social damage. Everybody is tired of chronic lines, the exhausting pursuit after necessities, trips to other cities and regions to find them, speculation, the acquisition of unearned income. Shortages, together with the present system for evaluating and providing incentives for enterprise work objectively causes prices to increase, quality to decline, expensive items to be produced, resources to be irrationally used and low cost goods to be taken out of production. Why worry about making them, if everything is bought, including 400-500 ruble overcoats. The most respected people are not those who produce goods, but those who have access to what has been made, those who distribute them and stand behind the counters. Shortages devalue the ruble, reduce the importance of money earned and the incentives to work.

The goods famine and the lack of correspondence between prices and costs hinder the development of new forms of economic management and lead to speculation and corruption. Many cooperatives and people engaged in individual labor activity add to the tightness of the market for several items, purchasing them, including those subsidized by the state, and then after making simple improvements, selling them at high prices, sometimes triple the original. So, state subsidies, the means for which are obtained from everybody, are given in large amounts to limited numbers of people. This leads to greater differentiation in people's pay. Clearly, a cooperative member with a 500 to 1,000 ruble monthly income uses more subsidized foodstuffs for personal consumption than does a worker or employee in the public sector.

The economy be returned to a normal, stable situation by just any means. They obviously must be appropriate to social and economic policies for the steady growth of working people's living standards.

The main directions for work to eliminate the lack of correspondence between prices and costs and between supply and demand should be improvements in labor productivity, reductions in socially necessary, increased production of goods and services, the liquidation of inefficiencies and all sorts of losses. However, this does not exclude, but even presupposes a reform in price formation and changes in the price levels and ratios.

Goals such as increasing production and lowering unit costs are not attained automatically, with the help of slogans and exhortations. They require considerable efforts, the economic interest of enterprises and each worker and engineer in their attainment, and the creation of an effective economic mechanism.

#### Retail and Wholesale Prices

Present prices and methods of forming them do not give labor collectives an interest in product quality and the maximum satisfaction of demand by all categories of the population. Industrial enterprises producing mass consumption goods generally base their cost accounting activities upon wholesale prices set especially for them and not upon prices at which these products are sold to the public. It doesn't bother them if retail prices are higher or lower than wholesale, as they have practically no influence upon enterprise economics or work indicators. The main thing is to get a high wholesale price

The situation is similar in agriculture. The state pays kolkhozes and sovkhozes for delivered products at procurement prices which are two and more times higher than retail prices. Procurement prices are not linked to the conditions for using food stuffs, working people's incomes or customer demand. They are essentially cost based, do not provide incentives to reduce production costs, but depend on them. In this situation it is far easier to show planning, financial and price formation organs the need to increase procurement prices than it is to show millions of customers.

Thus, final prices, that is retail prices, have almost no effect at all upon production, they act only in the sphere of consumption. This is totally incorrect. This historically evolved procedure is not at all suitable for the new conditions, in which the decisive factor will be the orientation towards direct ties between producers and consumers. Retail prices should not only be normatives in the consumption sphere, but also determine production parameters, have a direct effect upon production efficiency and be a tool for reaching agreement between producers and consumers.

Therefore, in the opinion of USSR Goskomtsen, it is necessary to reject the system of two price lists, that is,

setting "hothouse" prices for producers. Only retail prices and turnover taxes for various types of products should be set for industrially produced mass consumption goods. Enterprise cost accounting activities will be based upon retail prices minus trade rebates and turnover taxes sent to the budget. Procurement prices for agricultural products should also be based upon retail prices.

Restructuring the procedure and methodology for price formation is a very difficult matter and can only be done step by step, as conditions mature. During the review of wholesale prices it is intended to take the first steps in this direction: Wholesale prices will be removed for many industrially produced mass consumption goods.

### On the Fate of Procurement Prices

There are several reasons why the procurement price system should be retained for the foreseeable future. However, existing state retail prices for agricultural products cannot be taken as the economic basis for procurement prices, as they do not correspond to production and sales conditions at the majority of farms.

It is often asserted that to increase the efficiency of agricultural production, costs in this sector must be reduced to the level of existing retail prices, thus eliminating subsidies. However, such conclusions are not supported by studies. They are unrealistic. References to isolated facts and examples at some farms do not clarify the entire picture. This requires a comprehensive analysis, taking all facts into account and, finally, precise ideas about the subject being discussed. True, there are still many cases of loss and waste. Straightening out the situation, introducing new ways of operating, brigade and family contracts and increasing the number of lessees should reduce the resources used per unit of output.

However, an analysis of plan targets for the current five-year plan and an evaluation of the period gone by indicate that the sector production costs for agriculture will, in the foreseeable future, not reach retail price levels. Production costs should more fully include real costs. Many industrial products—agricultural equipment, mineral fertilizers, electric power and others are sold to farms at subsidized prices, something which does not promote their rational use, nor does it give industry incentives to reduce costs. There are provisions for removing subsidized prices for agriculture and transforming patronage relationships between cities and rural areas to an economic basis. All this would make agricultural production costs more realistic and, naturally, would initially retard price reductions.

Here is another important factor which is often neglected. Socially necessary costs include not only production costs but also the profits of kolkhozes, sovkhoses and lessees. Production cost reductions from lease and brigade contracts do not reduce these costs because in

dealing with lessees the state does not use production costs, but procurement prices. This means that reductions in production costs only increase profits. That is, they change price structure, but not its level. The possibility of obtaining additional profits and higher earnings is the real economic stimulus promoting the development of new ways of operating farms. If today procurement prices were to be reduced to the same extent as production costs there would be a halt to the spread of lease, brigade and family contracts.

It must also be remembered that the comprehensive development of agriculture and retaining people on farms require considerable increases in the construction of rural housing, roads, service enterprises, cultural and health institutions and improvements in social services to rural workers. Expenditures for these purposes are part of total socially necessary costs for food. Understandably, the sources for financing these costs should continue to be agriculture's own accumulation, based upon its improved profitability. Therefore, even if production costs are reduced, there should be no reduction in procurement prices. Also, the planned increase in agricultural production, above all in meat and meat products, will not permit a normalization of trade in such products at existing retail prices.

### To What Do Subsidies Lead?

To what extent will it be justified to retain the existing distortions in food production and consumption? After all, the consequences of this would be the retention and deepening of economic and social losses to society and most of its members.

First of all, there will be delays in the growth of food production, primarily by enterprises and construction projects for their collective use, as it loses money. The reduced value of foodstuffs will not provide incentives for increasing private households' output for their own needs.

Second, retail prices not corresponding to costs remain one of the reasons for the large losses of foodstuffs during transportation, processing, sales and use. These prices prevent the creation of an effective economic mechanism capable of radically changing the situation.

Third, these prices will not be an effective incentive to reduce costs and will not create economic and social constraints upon cost increases.

Fourth, the retention of low prices and ever increasing subsidies will retard the development of commodity-monetary relations, cost accounting, including regional, new forms of operating and effective incentives for labor.

The continual growth in subsidies means that growth in real incomes will, to an ever greater extent, take place through social services, and not through increases in

payments to labor. One cannot exclude the universal introduction of the ration card system or other forms of noneconomic distribution of products instead of their free sale. All this radically contradicts the chosen model for economic growth, the economic management system, the orientation towards overcoming command-administrative methods, levelling and the lack of individual responsibility. It will retard perestroika in the national economy.

Fifth, there will be a continuation and deepening of the unequal distribution of subsidies between individuals, families and regions. The smallest subsidies will continue to be paid to the least well off. This is socially unjust.

Sixth, there will continue to be the economic prerequisites for some people to obtain nonlabor incomes due to shortages and differing prices—state, cooperative, Gosagroprom system—for the same quality products. This protects the soil for nourishing speculation, price gouging and reselling goods.

Finally, when demand considerably exceeds supply it is not possible to attain social balance in the national economy, to maintain the ruble's real purchasing power and to normalize territorial economic relations and ties.

#### Prices and Compensation

All this raises the question of the advisability and possibility of changing existing state prices for food. Of course, this should be combined with measures to protect people's real incomes. Only this will create the prerequisites for the agroindustrial complex' dynamic development and increased efficiency, improvements in the entire system of economic relations and social processes and, in the final account, increases in people's real income.

This requires thinking over the basic question of a possible new level of retail prices for food. It would be incorrect base them on today's actual costs, reflecting waste and losses. New prices should be computed as the socially necessary costs for the most typical objective operating conditions, progressive technology, and normal organization in specialized zones for growing the main crops and producing meat and dairy products.

Therefore, the new retail prices should be lower than average procurement prices. This means retaining subsidies, but at considerably lower levels.

The setting of new retail prices below actual costs is also dictated by consumption and social conditions. Price changes do not have the goal of reducing food consumption. With the new prices food should be accessible to all categories of the population, especially those with incomes which are not high. The population's additional expenses should be fully compensated. This is a necessary condition for changing food prices.

There can be various forms of compensation. Some propose reducing prices for industrial goods. However, there are two reasons this is not suitable. First, there is the large unmet demand for many industrial goods. This will increase even more if prices are reduced.

Second, retaining the overall price level by reducing prices for some goods will not compensate each family and group in the population because of expenditures for various families differ with regard to income and age. For example, reductions in prices for carpets and crystal items will hardly compensate low income families and pensioners, who spend a large share of their income for food. It is preferable to make compensation in the form of direct money payments to each family member, both workers and nonworkers.

It is sometimes asked, why increase prices if the entire sum is to be returned to the population through compensatory payments. At present it is as if each member of society failed to receive some earnings, payment or support. The price of food is reduced by this amount and thus returned to each member those earnings not initially received. However, if roughly the same amount is withheld from each member, the amounts returned are very unequal, depending upon money income, place of residence and access to food.

How will this be changed by increasing retail prices and then making the appropriate compensation? Each individual will initially receive more earnings or allocations from public consumption funds. Consequently, there will be a reduced amount in the public pot, limiting the uneven redistribution of income. Implementing these measures will keep the growth in subsidies at about 7 billion rubles annually. This growth is due to increases in the production of money losing food products. These resources can be used more effectively and precisely to increase pensions and, most importantly, to directly increase payments to labor. Improvements in an individual's welfare will be more closely linked to work results. There will be increased incentives for better and more productive work.

Changes in prices will also be promoted by the normalization of trade in food products, the conversion of bank notes into real money. Also, the convergence of retail prices upon socially necessary costs will help increase food production, reduce its losses and improper use.

The reform of food price formation requires preparation and prerequisites—economic, technical and social-political. All consequences must be taken into account. Otherwise, changes in prices may lead to unexpected negative consequences and intensified inflation. More industrial goods and services are needed, as it is possible there will be increased demand for them if compensation is made. It is required that there be radical improvements in product processing, quality and that there be a

reexamination of the entire procedure for grading, sorting, marking and packing goods and general improvements in trade standards. Food prices should depend more upon quality.

It is also extremely important to bring order into payments for labor, not allowing them to increase without corresponding increases in productivity, and to increase the production of mass consumption goods and paid services.

There is a real danger that people with limited incomes will use the compensation to purchase industrial goods and not food. In general, an increased money supply in conditions of a general disbalance between supply and demand can cause additional difficulties in the market. Therefore, there might be a reconsideration of temporarily issuing people coupons for food and meals at public food service facilities. These would equal the monetary compensation. Some of the additional earnings from selling food at increased prices could also be used to create centralized food stocks to assist families with many children or which are extremely in need; and food stamps for students, etc.

In our opinion, the new retail prices should be the limit on sales prices for products sold by kolkhozes, sovkhoses, consumer cooperatives, cooperative and kolkhoz markets. At the most, the maximum excess of market prices over state prices should be minimal, taking into account additional transport expenses and standards. They should be regulated by state and soviet organs.

### **Price Distortions Discussed, Fewer Control Figures Urged**

*1820138 Moscow SOTSIALISTICHESKAYA  
INDUSTRIYA in Russian 7 Jan 89 p 2*

[Article by O. Gvakhariya, head of the Science and New Technology Section at the Georgia Council of Ministers Management of Affairs Office: "Why Do We Need Increases On Top Of Increases?"; first paragraph is introduction]

[Text] We are always talking about rising prices, and pretty much know all the reasons they climb. But there is something else we do not discuss as often. The tendency for prices to rise is far from a natural process. Instead, our whole system of planning forces enterprises to hike prices.

The pre-eminent index today is commercial output in rubles (or output for contract purposes). One need not be a rocket scientist to see the seriousness of an output level that is below that of this index. However, it is extremely difficult to produce large volumes of inexpensive goods, so enterprises have to keep something for a rainy day; that is, expensive goods.

A high price is the sword and shield of modern industry. It can help one survive difficult times, earn the favor of management, and continue working consoled by the

thought: "His loss, my gain." But mere respect for this rainy day resource is not enough; setting high prices is not a job for amateurs. In the same way that skyscrapers are dubious unless built on a solid foundation, high prices fail to get far unless they are safely secured atop a high manufacturing cost. Just such a high perch is conveniently under construction now. The prices currently being set factor in top-end wages, extravagant spending on materials, mind-bending, value-inflating creative accounting, and more. These "steroid injections" for manufacturing cost are used to justify constant price hikes. Those who raise the prices are, of course, blameless, and profits remain at about the same level: 20 to 25 percent.

There is a critical fact we need to be aware of. When prices are being determined, manufacturing cost is "hauled up" to the level of the projected retail price; retail price is not lowered to meet the manufacturing cost. This being the case, the realistic observer will plainly see that retooling is not likely to be a vital concern for managers and planners. After all, their job is to keep tabs on manufacturing cost, regardless of how imperceptible its downward creep may be. Years of battle with the administrative system have taught them they will always be facing reviews of old prices and approval of new ones. Hence, there is no way they can let spending or losses fall.

It used to be no easy matter for the research institute (NII) of an industry to first agree on a price increase and then have it approved by the proper authorities. But now, even this has changed. Prices can be determined through direct contracts. And the buyer, who is faced with a monopoly, ends up agreeing in advance to any price he is given.

So what are the factors that stimulate price hikes? First, there are the control figures that govern: "permissible price increases or rates of increase in percent." There is a causal link between these figures and the final price of a product. The higher the level of increase that is planned, the greater the final price will be. Second is the relationship between production and sales. At various times and under various conditions, any scheduled increase in output will be matched by a certain percentage increase in price. This relationship has virtually become an economic law.

What we need are control figures that reflect actual physical output levels rather than flaws in the price setting mechanism or the mediocrity of businessmen. And the only way to determine what these figures should be is to study the market and the past and present performance of enterprises. It should be noted that when control figures determined in this way are multiplied by "standard" prices, the ruble yield may turn out lower than in the previous plan period. But there is nothing suspicious about this, since everything is determined by the physical level of output, which will grow.

The ringleader of control figures is GNP—the point at which our obsession with gross output begins its pernicious rampage. As long as it continues to exist, the outrages of the obsession with it will never leave us. I cannot believe that this has not yet dawned on certain people, who insist on using what is only a reference index—and should only be a reference index—as a critical control figure expressing the total physical production of goods and revenues from services.

Currently, the rates at which prices can increase are set for all enterprises, ministries, and regions of the country. The purpose of this is to have the money channels flow into each other, run in a common channel to the control figures, and ultimately debouch into the great ocean of GNP. This “magnificent river system” is strictly monitored.

But everyone knows that planning based purely on gross output is incompatible with full khozraschet and self-financing. So a choice has to be made. Volume indexes have to be used only as analytical and statistical tools, and should be excluded from planning. Until we start using them as “management” indexes, we will never be able to get rid of the obsession with gross output or extricate ourselves from our economic morass.

Currently, we need only two target indexes, and these should be used only for state procurement agency activity. They are: commodities to be produced, in kind; and delivery obligations under contract. Only when these are the sole target indexes will we be able to cure our obsession with gross output.

### **Gosbank Official Explains Role of New Commercial Banks**

18200206 Moscow *EKONOMICHESKAYA GAZETA*  
in Russian No 2, Jan 89 p 9

[Interview by P. Korotkov with V. Zakharov, under rubric “Interview on a Timely Topic”: “New Banks: Why Do We Need Them?”]

[Text] We are all witnesses to considerable changes in the economy. We are also changing our views concerning many concepts that had seemed to be unshakeable. We are no longer surprised by the creation of rental collectives not only in agriculture, but also in industry, and the issuance of shares by enterprises and organizations is becoming an ordinary event. But new banks that conduct their activity on commercial principles have begun arising on the territory of our country. Why are they being created and what are they like?

Answers to these questions that were asked by our correspondent P. Korotkov were provided by V. Zakharov, deputy chairman of the Board of USSR Gosbank, chief of the Administration for the Planning and Coordination of Bank Activity, and doctor of economic sciences.

[P. Korotkov] Vyacheslav Sergeyevich, wherein lies the need for creating the new banks? Isn't this the paying of

tribute to fashion, or the attempt to do something that is new? Because the increase in the number of banks will not lead automatically to an improvement in the quality of the credit and settlements services provided to enterprises and organizations.

[V. Zakharov] Of course the crux of the matter is not the number of banks. The most important thing is that the new bank institutions are being organized by means of the voluntary unification of state enterprises, cooperatives, and their unions with the purpose of the accumulation and efficient use of the monetary means of the shareholders to meet the needs of developing the particular branch, subbranch, group of enterprises, or region. This process reflects the implementation of the rights and the development of the initiative and enterprise of the primary cost-accountable links, which rights were granted to them by the USSR Law Governing the State Enterprise and the USSR Law Governing the Cooperative System. The creation of commercial banks is one of the ways to find highly effective economic mechanisms and is an alternative to the traditional forms of bank activity.

The principles of the functioning of the commercial banks preclude the possibility of completely automatic actions when granting credit, because they have a self-interestedness in their clients' attainment of high final results and in the increase in their production effectiveness. Both economic responsibility and legal responsibility for the work performed by the banks lies completely on their founders and shareholders. In this regard one can speak of the uniformity of procedures in the economic mechanism in the commercial banks, at enterprises, and in cooperatives.

Having at their disposal exhaustive information concerning their clients' financial status, the commercial banks will be able to fulfill the role of agencies that locate the economically weak, unpromising, and relatively ineffective enterprises and cooperatives.

In certain instances these banks, on a contractual basis, will analyze their clients' financial activity; will prepare computations of the effectiveness of their use of funds; acting in their clients' name, will conclude contracts and transactions; and will carry out middleman operations, legal consultation, and the legal defense of their interests.

The large number of banks creates the possibility of competition among them. The selection of a bank by the client, and of a client by the bank, will become a reality. The banks will establish their service terms, and the clients will be free to accept or to reject them.

In conformity with the Law Governing the Cooperative System in the USSR, cooperatives can choose a bank to carry out the credit and settlement operations. But at the present time this right exists only on paper: in most cities and rayons there exist only one branch of any particular specialized bank. Also, with the presence of several

branches of these banks, the choice will lose any sense, inasmuch as all the branches operate in accordance with uniform rules.

In addition, the creation at times of completely small commercial banks is nothing else but the fight against gigantomania in banking. Small-scale bank institutions are much more capable of resolving questions of a local or regional nature, which are linked, for example, with satisfying the public's needs.

[P. Korotkov] The statute that is currently in effect stipulates that any bank on the territory of the USSR can be created only with the authorization of the State Bank. You, as the chief of the Administration for the Planning and Coordination of Bank Activity, of the Gosbank Board, engage directly in this. Who, then, can open up a bank and what kind of procedure exists here?

[V. Zakharov] The new banks—the regional, branch, and cooperative ones—and other credit institutions are created on the territory of the USSR on the basis of shares or joint stock. The entities that can be bank founders are ministries, departments, other agencies of state administration, Soviet and foreign banks, associations, enterprises, organizations, institutions, unions (associations) of cooperatives, and cooperatives. The shareholders (stockholders) join the bank on voluntary principles.

The overall guidance of the banks operating on the basis of shares or joint stock is made the responsibility of the meeting of shareholders (stockholders). The current activity is administered by boards that are created by the bank councils.

The authorization to open a commercial bank is the registering of its charter by USSR State Bank. USSR Gosbank also issues the authorization for the creation, jointly with banks of other countries, of finance and credit organizations on the territory of the USSR. The announcement of the registration of charters is published in the press.

In order to guarantee the stability of the banks' financial situation and a liquid balance-sheet structure, and also to protect the depositors' interests, the following economic standards have been established. The minimum amount for the statutory fund of a commercial bank is established at 5 million rubles; and a cooperative bank, 500,000 rubles. The total amount of the attracted deposits by the citizens must not exceed the total amount of the bank's own funds. The total volume of bank obligations with respect to attracted funds cannot exceed an amount that is 20 times greater than the commercial bank's own funds, or 12 times greater than the cooperative bank's own funds. Moreover, 5 percent of the attracted monetary funds is deposited by the banks in the regulation fund at USSR Gosbank.

The maximum amount of credit granted to one borrower, as a rule, must not exceed 100 percent of the

commercial bank's own funds or 50 percent of the cooperative bank's own funds.

The banks are required to maintain constant conformity between the resource volumes and the issued credit, with a consideration of the time periods for credit operations.

[P. Korotkov] At the present time, new banks are being created rather actively. What kind of commercial banks have already been created, and what are they like?

[V. Zakharov] As of 1 January 1989, USSR State Bank, in coordination with USSR Minfin [Ministry of Finance], registered the charters of 41 commercial banks, 24 of which were created by cooperative unions and 17 by state enterprises.

The founders and shareholders of the commercial banks are enterprises and cooperatives in practically all branches of the national economy. The soviet agencies of certain cities have joined this work and they support the initiative of the enterprises and cooperatives. For example, Mossovet and the Tartu City Soviet of People's Deputies have rendered assistance in creating, respectively, the Moscow Cooperative Bank and the Tartu Commercial Bank.

Most of the cooperative banks are of an unspecialized nature and carry out complete services for the cooperatives. Some of them have a specific nature. For example, the Dvina Cooperative Bank (Vitebsk) and the Sroy-Kredit Cooperative Bank (Moscow) set as their basic goal the providing of assistance in resolving the housing problem. They will grant credit to pay for the expenditures to construct apartments and buildings with the subsequent sale of them to the public, enterprises, and organizations, and to produce building materials at rented plants producing brick and reinforced-concrete articles, which plants are currently operating at a loss. The Sroy-Kredit Bank will also issue credit for the construction of centers for physical-culture and therapeutic measures, and for other needs.

A cooperative bank in Grozny is being created for the purpose of developing cooperatives to produce and process the output of animal husbandry, the breeding of fur-bearing animals, the sewing of articles from sheepskins and from fur, and the manufacture of canned goods.

The sphere of activity of the commercial banks created by state enterprises, associations, and organizations encompasses many branches of the national economy.

The optimal model of a territorial-type multipurpose bank is the Tartu Commercial Bank. The creation of this bank is a practical step in implementing the principles of regional cost accountability. Its founders are the industrial, construction, and agricultural enterprises, as well as the state university and the Vanemuine Opera and Ballet Theater. The bank will mobilize the uncommitted

funds of the enterprises and channel them in the form of credit to expand the production entities that are needed by Tartu and to develop the infrastructure of the city and the adjacent rayons.

Commercial banks are created in order to provide services for the interbranch production associations. An example of this type of bank is the Joint-Stock Commercial Bank for Interbranch Integration, which was created by the Elektropribor MPO [interbranch production association]. The founders of that bank are the Kvant Scientific-Production Association, the Elektrougli Plant, and others.

That bank will provide credit to every enterprise, proceeding from the overall interests, will maneuver the resources within the association, and will render assistance in establishing an efficient system of intraproduction cost accountability.

Certain commercial banks plan a broad program for providing credit for innovative activity. They include the Inkombank-Interznaniye Bank (Moscow). This bank intends, completely or on a shared principle with Soviet and foreign organizations, enterprises, and cooperatives, to provide credit for and to finance measures linked with innovative activity, and to conclude license agreements both within the country and abroad, with the purpose of purchasing and selling output. Its founders are the Moscow Institute of the National Economy imeni G. V. Plekhanov; the Impuls Center for the Scientific-Technical Creativity of Youth (Dnepropetrovsk); the Rotor Scientific-Production Association (Cherkassy); youth associations; and public and scientific-research organizations.

The tasks that the founders set for the commercial Innovatsionnyy Bank in Riga are extremely broad. They are the providing of all kinds of assistance in developing the agroindustrial complex and the social sphere; and the increased activity of the cooperative forms of introducing the achievements of scientific-technical progress (from designing to the production of finished output). Credit will be granted to cooperatives, enterprises, and organizations that are participants in the innovational process.

Two branch-type commercial banks have been created. Avtobank intends to promote the increase in effectiveness in the production and operation of automotive technology, the increase in the production of consumer goods, and the expansion of services linked with motor-vehicle repair and servicing. Strombank was created to provide credit for measures to achieve the production and social development of the building-materials industry. It will retain the money in the centralized fund and reserves of USSR Ministroyaterialov.

USSR Gosbank is considering proposals concerning the creation of certain other banks, including a bank for USSR Academy of Sciences and one for Tsentrosoyuz [Central Council of Trade Unions]. The Board of USSR

Gosbank and its republic-level banks and administrations in the outlying areas render a large amount of assistance in preparing documents and organizing the work of the commercial and cooperative banks.

**[P. Korotkov] Vyacheslav Sergeyevich, today many ministries have been expressing the desire to create "their own" branch banks. Won't this lead to the rebirth of the mechanism of the branch redistribution of financial means?**

[V. Zakharov] It would seem that there is no foundation for fears of this kind. First, the funds of the branch banks will be provided to enterprises on terms of returnability, by specific deadlines and at specific rates of payment. Second, the credit will be issued on the basis of decisions made at a meeting of shareholders and the bank's council and board, that is, on democratic principles, rather than by means of any administrative decisions made by a particular ministry.

In this regard, Gosbank supports the proposals to organize branch banks that have been made by Minneftekhimprom [Ministry of the Petroleum Refining and Petrochemical Industry], Mintransstroy [Ministry of Transport Construction], and a number of other union ministries. However, these banks cannot be created as part of ministries or under their control. They must be completely independent in their activities.

**[P. Korotkov] The creation of any bank requires first of all the attraction of the temporarily uncommitted funds of the enterprises and organizations, and the public. Today these funds are part of the country's single savings fund, which is managed by the state banks. Doesn't the decentralization of the country's savings fund to the commercial banks contain a hidden danger that it will be "squandered" or used ineffectively?**

[V. Zakharov] In my opinion, one should not fear this, for the following reasons. Only part of the savings fund is being decentralized, namely, the funds remaining as a balance on the accounts of enterprises, associations, and ministries. As for the public's deposits, in each commercial bank the size of those deposits must not exceed the total amount of the bank's own funds, that is, 5-8 percent of the bank's obligations. Consequently, the bulk of the savings fund—the public's money in deposits made to the Savings Bank—will not be decentralized. Such credit resources as the funds in settlements and in state-budget accounts, and money in circulation, are not transferred to the commercial banks.

In addition, the regional and branch banks will promote the more flexible transfusion of funds and the restructuring of the national economy.

Finally, the redistribution of the temporarily uncommitted funds on principles of cost accountability will make it possible to establish the truth price of loan money, and

to compare the need for credit with the opportunities for its effective use. It is no secret that today the high demand for credit is linked with the fact that it is unusually inexpensive. Our average interest rate is less than 3 percent.

At the same time the creation of commercial banks poses new problems in credit planning. Obviously, the credit plan can no longer be drawn up in a cross section of the specialized bank. There arises a need for territorial credit planning, because the commercial banks are chiefly of a regional nature, and the public will most probably deposit its money in the banks located where they live.

[P. Korotkov] **The commercial banks will completely assume the responsibility of providing credit and settlement services for their clients. Is it possible that the specialized state bank will prove to be completely unnecessary?**

[V. Zakharov] I think that there will still be a need for them. There are functions that, for various reasons, must be carried out only by the state banks.

First, the organization of monetary circulation in the region; the emission of money; the management of the reserve funds of paper money; and the drawing up of cash plans and the monitoring of their fulfillment. Second, the cash-settlement execution of the state budget. And, third, settlements between banks, through their correspondent accounts.

It would seem that every rayon (city) must have a cash-settlement center for one of the state banks, which center fulfills the previously mentioned functions. In addition, it will provide credit to enterprises and organizations which, for various reasons, will not change over to services in commercial banks.

## REGIONAL DEVELOPMENT

### **RSFSR Finance Minister Outlines 1989 Economic Goals, Problems**

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[Article by A.A. Bobrovnikov, RSFSR finance minister: "The RSFSR State Budget and the Republic's Comprehensive Economic Development"]

[Text] The State Plan for the RSFSR's Economic and Social Development Over the Period 1986-1990 was approved in the 3d Session of the RSFSR Supreme Soviet, 11th Convocation. The first thing that was distinctive about the plan was the essential rise in the rates of development of the Russian Federation's economy. Most of its indicators were set at the level of the upper limit of the targets contained in the Basic Directions for the country's economic and social development. The second thing was its reliance on intensive factors of economic growth, on an orientation toward priority objectives, on intensification of the social orientation in economic development, on improvement of regional

proportions in social production, on further comprehensive development of the economy of all the autonomous republics, krais, and oblasts, and on achieving accelerated growth of the productive forces of the Nonchernozem Zone, Siberia, and the Far East, as well as the areas inhabited by the nationalities of the North.

The 3 years of the 12th FYP that have passed have been characterized by a higher growth of general economic indicators of the RSFSR than in the 11th FYP. The average annual growth of national income and of the volume of industrial output have been substantially higher than the level of the previous FYP. Moreover, the entire growth was achieved by raising labor productivity. Larger capital investments were made in construction of both production and nonproduction facilities. The targets for 1988 and the first 3 years of the FYP were fulfilled for the output of the most important products of industry and livestock raising and for the volume of highway and river freight traffic. The economic potential that has been built is the foundation for guaranteeing a further rise in the prosperity of the people.

When it examined the draft plan and draft budget for 1989 in its 9th Session, the RSFSR Supreme Soviet, 11th Convocation, paid particular attention to discovering and activating untapped potential and capabilities for acceleration and for guaranteeing achievement of the planned indicators of the FYP with respect to all basic directions of the republic's economic and social development. It was noted in the session that certain deficiencies exist in a number of sectors and branches. The economic levers and incentives envisaged by the reform are not having the impact they should toward increasing the efficiency of economic activity and the stability of operation of many enterprises and associations. Annual assignments have not been fulfilled for the output of the most important consumer goods. The state of affairs in capital construction continues to be strained: production capacities have not been activated on schedule, and construction of children's preschool institutions and other facilities in the social sphere has been lagging behind the plan.

If dynamic and steady economic growth is to be guaranteed, there has to be an effective and flexible system for management of the economy, and major problems have to be solved concerning the organization of production operation and the conduct of business, finance, credit, and the circulation of money. A fundamentally new financial policy has to be conducted and the financial mechanism has to be restructured if the economic reform is to be carried out. The budget, since it is the republic's fundamental financial plan, has an important role to play in the successful performance of these tasks.

When they drew up the draft of the republic's budget for 1989, the RSFSR Ministry of Finance and local financial authorities thoroughly analyzed the financial situation of the republic and regions from reports for the first 2 years of the 12th FYP and the progress in fulfilling the budget

in 1988, and they determined the needs for financial resources in order to support the assignments contained in the draft of the plan for economic and social development. Here, they compared money outlays to the results achieved in economic and cultural development.

The analysis showed that the process of restructuring has been complicated, a radical breakthrough has not yet been achieved in socioeconomic development, and the financial condition of enterprises in a number of sectors and branches remains unstable. Specific proposals for raising the level of economic activity and strengthening the finance of particular branches and regions were prepared as part of preparation of the draft budget for 1989 and sent to the government and to the republic's supreme soviet. Sessions of the Presidium of the RSFSR Council of Ministers and of the budget and planning commission and other standing committees of the RSFSR Supreme Soviet thoroughly examined the reports of heads of republic ministries and departments, of councils of ministers of ASSR's, and of executive committees of kray and oblast soviets of people's deputies. The decisions made and measures outlined helped in guaranteeing fulfillment of planning targets for 1988 and to laying a solid foundation of partial completion for the future period.

Particular importance is being attributed at the present time to restructuring financial and budgetary planning on the basis of a system of stable long-term economic standard rates and financial standards regulating financial relations between enterprises and the budget. This effort is to be completed in all sectors of the economy by the end of the 12th FYP. Financial personnel must take an active part in shaping the standard economic rates and financial standards and must monitor correctness of their use. The point of departure here must be the socially necessary requirements as to efficient use of production resources, labor resources, and financial resources by shaping the optimum production structure and through intensification of production on the basis of accelerated scientific-technical progress so as to guarantee full satisfaction of social needs, production needs, and other needs and so as to combine the interests of the entire state, the republic, the collective, and the individual in distributive relations.

Relations between enterprises and local administrative bodies are in need of further improvement in connection with the need to arrive at sound proportions of resources which enterprises would commit to the economic and social development of the region where they are located. The participation of enterprises in measures to develop the region should also be set down in legislation. These relations must be built on a strictly economic basis.

The RSFSR State Budget was shaped for the current year so as to take into account that 1989 is the year for completion of the transition of enterprises in all branches and sectors to full cost accounting (*khozraschet*) and to self-financing. And this requires decisive

and vigorous practical steps and greater responsibility of ministries and departments, soviets of people's deputies, and work collectives for building up and using financial resources to cover the comprehensive development of branches and sectors, regions and the republic as a whole, and to carry out a vigorous social welfare policy. The principles arising out of the requirements of cost accounting that enterprises themselves should earn resources to strengthen their own financial base have been fully reflected in the budget.

Key officials and specialists in the republic's financial system are called upon (both at central headquarters and in the field) to improve the effectiveness of state management of finances. This effort will be based on a strengthening of the principles of centralization combined with broad introduction of economic methods of management and expansion of the independence of enterprises and soviets of people's deputies in the development of production and social welfare.

The RSFSR State Budget centralizes financial resources to carry out structural revamping of the republic's economy and to finance the most important republicwide target programs for combined economic and social development. Appropriations from the budget are concentrated along the priority lines of development of production and social welfare and on augmenting the scientific-technical potential.

The most important specific feature of 1989 is the practical accomplishment of major structural shifts to intensify the social orientation of the economy. The reference is to priority solution of the food problem and the housing problem, accelerated development of the production of consumer goods and the service sector, social and cultural service institutions, and municipal services and utilities, along with improvement of the ecological situation.

The 3.9-percent growth of the national income produced envisaged by the plan for 1989 is to promote realization of what has been outlined. Moreover, the share of resources to be allocated to raise the prosperity of the people amounts to more than 80 percent of the national income used, which is more than envisaged by the calculations for the current year pertaining to the 5-year plan. This year, the production of consumer goods has been set to include a growth of 13 billion rubles over the plan for 1988. This is substantially more than the targets of the 5-year plan and the Comprehensive Program for Development of the Production of Goods and Services for the Public. The retail sales plan for this year exceeds the assignment of the FYP by 3.4 billion rubles. The plan calls for improving relations among the growth of money personal income (105.8 percent), retail sales (106.4 percent), production of consumer goods (107.4 percent), and sales of paid services (109.1 percent). The real prerequisites are being created for meeting the targets envisaged by the "Housing 2000" Program for the 12th FYP.

The resources of the budget in 1989 are being concentrated on carrying out the relevant republic social welfare programs and also along the priority lines of scientific-technical progress. We would like to call attention to the high relative share of the resources of local budgets in financing social welfare and cultural measures, the sector of housing and municipal services, and consumer trade and services.

The expenditures of the RSFSR State Budget for 1989, taking into account the transition of sectors of the economy to full cost accounting and self-financing, have been set at 126.9 billion rubles, which is a 6.4-percent growth over the revised size of the 1988 budget. Plans call for committing 58.1 billion rubles to the development of public education and culture, health care, and social welfare in 1989. The expenditures of the budget for these purposes will increase 6.7 percent, whereas the growth rate of the national income produced is 3.9 percent. What is more, the resources of cost-accounting funds of enterprises must be called upon on a large scale to perform these social tasks, and broader use should be made of the resources of individuals, cooperatives, trade unions, and other public organizations on a voluntary basis. It is particularly important to attract financial resources from all sources for those purposes under present conditions, as regional financial and budget planning is being improved.

The state is providing sizable financial aid to the agroindustrial complex of branches in order to stimulate its economic growth, to fulfill the targets of the Food Program, and also to improve the social and consumer services for the farm labor force. In 1989, 87.7 billion rubles are being committed to development of the APK from all sources, including 51 billion rubles from the budget, which is a 6.6-percent increase. Expenditures for these purposes represent 40 percent of the entire size of the republic's budget.

Sizable financial resources are being concentrated to finance measures to develop and expand the production of consumer goods and the service sector. In 1989, 7.2 billion rubles of "own" resources and budget appropriations are envisaged to develop light industry, the textile industry, local industry, and other branches of the industrial sector. This should cover the planned 6-percent growth of the output of industry in Group B in 1989, as against a growth of 3.2 percent in the output of Group A.

Appropriations to develop enterprises in the trade sector and consumer services will amount to 8.7 billion rubles from all sources in 1989, those for housing and municipal services 13 billion rubles, and those for transportation and communications 12.3 billion rubles. This substantially exceeds appropriations for these purposes in 1988.

Successful realization of programs for increasing the prosperity of the people and for strengthening productive plant and equipment depends in large part on an

effective investment policy. The allocation from the state budget to finance capital investments in 1989 is 14.6 billion rubles. A substantial change is taking place in the structure of sources for financing capital investments, and larger appropriations are being made from the budget to finance construction of projects in the social sphere (housing and institutions for social welfare and cultural purposes). In the Nonchernozem Zone of the RSFSR, 15,300 km of roads will be built.

Substantial financial resources are being committed to measures related to ecology and environmental protection. The plan for 1989 calls for an interrelated set of measures to improve the ecological situation and to guarantee optimum use of natural resources.

More resources are being allocated to the development of science and technology. Over the first 4 years of the 12th FYP, appropriations for science from the republic budget are increasing more than 40 percent. What is more, very large resources are also being allocated for those purposes from the funds of enterprises and associations. A high rate of return has to be achieved from the funds invested, and more vigorous use needs to be made of cost-accounting principles in the activity of scientific research organizations of RSFSR ministries and departments.

It was observed at the 19th All-Union Party Conference that the policy of the party—economic policy, social policy, and nationality policy—must be conducted above all through the soviets as bodies representing popular sovereignty. This was also confirmed in the extraordinary 12th Session of the USSR Supreme Soviet, 11th Convocation, when amendments and supplements were made to the USSR Constitution. The restructuring of all aspects of the life of Soviet society has advanced new requirements as to the work of soviets of people's deputies. They have been given a larger role and responsibility in improving the regional structure of the productive forces of the republic and in its comprehensive economic development. It should be emphasized that the size of local budgets in the republic has been growing at a fast pace from year to year. They have grown 1.6-fold just in the 11th FYP and the first 4 years of the 12th.

Substantial financial resources and a sound income base for the economy and revenue base for the state budget are indispensable to successful performance of the tasks set in the decisions of the party and Soviet state concerning accomplishment of radical shifts in all areas of the renewal of society and above all solving the real problems in the lives of the Soviet people.

Here again, we must speak seriously about the most acute of the present problems of the republic's economy and budget: restoration of financial health, since the RSFSR State Budget for 1989 has been approved with a deficit, that is, expenditures exceed revenues by 6.4 billion rubles. If the budget deficit is to be overcome,

there has to be a corresponding mobilization of additional financial resources and reduction of expenditures in the process of carrying out the plan and the budget.

The existence of the deficit makes the financial situation in the republic substantially more acute and demands a fundamentally new approach to mobilizing and using financial sources and a substantial tightening of the economy regime in all spheres of production and economic activity. It is becoming especially important to realize the maximum financial return from introduction of the new economic mechanism.

At the present time, attention in the context of full cost accounting and self-financing must be concentrated on seeking additional sources of financing within enterprises and associations, accompanied by a sharp reduction in most types of subsidies and nonrepayable budget assistance. An active part should be taken in providing training in economics to managers and specialists in the economy, enabling them to think in up-to-date economic terms oriented toward rejection of the dependent approach to budget appropriations.

The point of departure in solving the problem of economic development must be that the growth of expenditures must be unfailingly linked to the possibilities of using "own" resources of economic entities and of obtaining bank credit.

The basis for building up the revenues of the budget is the growth of financial resources received from state enterprises and organizations in the form of the payments from profit (income), the turnover tax, and other contributions. They amount to almost 90 percent of the total volume of revenues of the RSFSR State Budget for 1989, or more than 108 billion rubles.

Since enterprises have made the transition to full cost accounting and self-financing, their relations with the budget have been substantially revised. The share of profit left at the disposition of enterprises to expand production, to pay worker incentives, and to develop the social sphere is being increased from 63 percent in 1988 to 66.4 percent in 1989 in order to strengthen the financial base of the sectors of the republic's economy. Thus, only one-third of profit is being channeled into the budget, and its share is moreover diminishing. In order to achieve an increase in payments from profit flowing into the budget and to overcome the budget deficit on that basis, financial authorities must concentrate their attention on maximum use in branches and sectors of the economic levers and incentives designed to guarantee stable growth of accumulation.

An important direction in the operation of the republic's financial system today is the search for opportunities to further increase payments of turnover tax into the budget. Their total amounts in the republic in 1989 is planned with a growth of 11.4 percent over the previous year's plan. Deductions from the turnover tax paid into

the republic's budget are envisaged on the order of 85 percent, or in the absolute amount of about 54 billion rubles.

Here again, just as in the case of profit, financial authorities must take action with economic methods and promote greater enterprise motivation to collect additional turnover tax.

For example, effective use of the right to leave at the disposition of enterprises in light industry and the textile industry 30 percent of this tax collected for the sale of goods produced over and above the level achieved in the previous year. A number of other benefits established for enterprises in various branches and sectors should also be used to the greatest benefit.

Opportunities need to be sought (taking into account use of the new economic mechanism) for a further growth of the production of consumer goods, above all at enterprises of the APK, the building materials industry, local industry, light industry, and the textile industry, in order to improve the stability of the revenue side of the budget, to strengthen the circulation of money, and to reliably balance the projected volume of retail sales with the supply of commodities.

Cooperatives now have a larger role in the sphere of producing goods and rendering services for the public. There are 25,000 cooperatives of various kinds now operating in the republic. In just the first 9 months of 1988, cooperatives produced goods and rendered services worth a total of 1.4 billion rubles. Self-employed individuals are also making a definite contribution to satisfying the ever growing consumer demand. Financial authorities must establish strict enforcement of legislation concerning the collection of taxes from cooperatives out of the wages of workers employed in them and also from self-employed individuals. In 1989, it is anticipated that approximately 30 million rubles of tax on cooperatives and the wages of workers employed in them and more than 40 million rubles of payments for licenses and registration certificates will be paid into the budget.

A very strenuous target was set for the revenues of the RSFSR State Budget for 1989. But it was not possible to balance expenditures with revenues. That is why the republic's financial authorities must make a serious effort to speed up the growth rate of the income of the economy and revenues of the budget and to furnish the financial resources for all the measures related to comprehensive development of the republic's economy envisaged by plans.

In what specific ways are relations of the republic's financial authorities with enterprises and associations changing today? The work with state revenues and the effort to compile and carry out the budget must not be organized apart from the finances of the basic tier of the economy—enterprises and associations. It must not be lost from sight that only sound finances of enterprises

and branches and sectors can guarantee stability of revenues to the budgets of the republic, oblasts, cities, and rayons.

Financial authorities must on their own initiative shatter the established stereotypes of relations with enterprises, advancing the relations of partnership to the foreground. In addition to close monitoring of the punctuality and completeness of payments into the budget for the quarter and the year, financial authorities must always be mindful of their prospects for filling state orders envisaged by the 5-year plan and also comprehensive target programs of regions where the enterprises are located, so as to guarantee that each of them makes a weighty contribution to the common cause of the region's development.

Financial authorities must pay a great deal of attention to contacts with workers' councils. By interacting closely with them, financial authorities can provide them competent help in analyzing the economic condition of enterprises and in the formation and effective use of financial resources from all sources.

Working together with enterprises, financial authorities can also exert influence through them on all the finances of regions. This will also be of help in better preparation for the upcoming restructuring of the compiling of the budget on the basis of long-term standard stable rates and the transition to regional self-financing based on application of the principles of regional cost accounting. Today, this is one of the most important directions for improvement of financial and economic operations in financial agencies and in sectors and branches.

Strong finances are necessary to successful performance of the tasks of restructuring and of accelerating the republic's comprehensive economic development. The specific program drafted in the republic to restore the financial health of the RSFSR economy and to strengthen the circulation of money calls for a set of interrelated measures to guarantee stable growth of accumulation in the economy, to eliminate the production of products, the performance of jobs and rendering of services at a loss, to reduce unproductive expenditures and losses as much as possible, to substantially strengthen discipline in making payments and settling accounts, to make up for the shortage of own working capital in economic entities and to repay bank loans granted for those purposes, and to use credit resources more effectively.

While economic entities under jurisdiction of the RSFSR in general overfulfilled the profit plan in 1988, enterprises of a number of ministries adopted plans that were not strenuous enough, so that they were not able to achieve the reference figures for the annual profit plan. What is more, last year one out of every five industrial enterprises in the RSFSR and in the economy under the republic's jurisdiction failed to fulfill the profit plan. This resulted in breaches of settlement and payment

discipline and the failure to meet obligations for payments from profit to the RSFSR republic budget. Enterprises and organizations of the textile industry and light industry, of agroindustrial committees, and of housing and public works construction fell furthest behind.

Today, one of the most important directions of financial and economic effort is to eliminate the unprofitability of production, the performance of jobs, and the rendering of services. The resulting losses amount to more than 5 billion rubles. This issue is taking on particular relevance in the context of broad introduction of cost accounting and self-financing. In what is left of the FYP, measures are to be taken to eliminate the unprofitability of production by applying new methods of economic activity, by raising the technical level of production and carrying out reconstruction, and by improving utilization of production capacity. This applies above all to RSFSR Gosagroprom, the Gosagroprom of the Nonchernozem Zone, Minzhilkomkhoz, Minavtotrans, Minkhleboproduktov, Minbyt, Mintopprom, Ministroyaterialov, and a number of other RSFSR ministries and departments.

It is possible that certain administrative agencies will have to reorganize or close down enterprises (shops and sections) operating at a loss because of their inability to pay, because there is no demand for their products, and also in cases when the measures taken by the enterprises themselves and by superior authorities to achieve profitability have not yielded results. It is likely that it will also be necessary to undertake such measures as merging enterprises with those which are economically strong and the leasing out of capital assets.

One of the main potentials for economic growth—resource conservation—has not yet been fully activated in the republic. It is well-known that material costs represent two-thirds of the product's production cost. At the same time, cases when planned inputs are exceeded are encountered quite often in economic practice. In 1988, there was an increase in the production cost and material costs at industrial enterprises located in Arkhangelsk, Kaliningrad, and Tomsk Oblasts and the Buryat and Komi Autonomous Republics.

In the APK system, the financial condition of many kolkhozes and sovkhozes remains grave. At the same time, the budget appropriations allocated are quite often being used ineffectively, they often go to cover losses from unproductive expenditures and operating losses. For example, the losses from the death of livestock alone amounts to about 1 billion rubles a year, and the loss from spoilage and damage to inventories about 300 million rubles. The losses have been especially large in Kalmyk ASSR, Stavropol Kray, and Ivanovo, Kurgan, Omsk, Pskov, and other oblasts.

In a number of sectors of the economy, the necessary measures have not been taken to institute the cost-fighting mechanism and to normalize the financial situation on the basis of more vigorous application of

progressive forms of economic activity, especially leasing, which make it possible to reduce costs, cut back losses, and increase the efficiency of utilization of resources of all kinds. The time has come to be concerned about increasing the reliability and completeness of data shown in the statistics on losses which society incurs in all stages of production and in employee welfare. This should help to improve the quality of analysis of the republic's economic development and fuller reflection of the impact of losses on the end results of production.

Financial agencies must join the banks in monitoring more closely the release of funds for remuneration so that every ruble of wages corresponds to the real volume of output produced, jobs performed, and services rendered to the public, that is, so that every ruble is earned, so that the rise of labor productivity outstrips the growth rate of the average wage. Financial agencies must have closer contacts with the banks on the problems of strengthening the circulation of money, fulfillment of the cash plan, and prevention of economically unjustified issuing of notes and inflationary processes.

Broader use must be made of available opportunities for the inflow of foreign exchange in order to strengthen the financial position of enterprises and the sectors of the economy. The State Plan for the Economic and Social Development of the RSFSR in 1989 calls for increasing foreign exchange proceeds from exports by 1.7-fold over the previous year. The volume of coastal and border trade is to grow 1.5-fold, which will have a favorable effect, for example, on the socioeconomic development of regions of the Far East, Siberia, and the northwest of the Russian Federation. The reason is that all the proceeds in foreign exchange from exports that come under coastal and border trade remain at the disposition of councils of ministers of autonomous republics, krayispolkoms, and oblistolkoms and are committed to the purchasing of consumer goods and other goods abroad. The rise in the volume of exports depends to a considerable degree on broader use of the right that has been granted to channel into exports products manufactured over and above the assignments of the state order and obligations under economic contracts.

When we examine the problems of restructuring the financial mechanism and the operation of the republic's financial system under the new economic conditions, we must single out and pay particular attention to the problems of strengthening interaction both at the center and in the field with other statewide economic departments and also with economic and financial departments at the level of the sector and the branch.

In drafting plans to improve in the future the style and methods of operation of all units in the republic's financial system, emphasis should be put on the problems of restructuring financial and budget planning in the context of full cost accounting and self-financing. Constant attention should be paid to drafting measures

to strengthen the role of multiannual financial planning. Here, it is important to bear in mind that central authorities have deemed it necessary to make the transition to drafting 5-year financial plans as an organic and integral part of state plans for economic and social development of the economy and its sectors, complexes, and regions. The final stage in the current 5-year planning period has already begun, and financial and budget planning work should be stepped up so as to take into account the tasks of the 13th FYP.

One of the important issues in the restructuring of financial and budget planning at the present time is the search for improved methods of carrying out redistributive processes, of economically warranted regulation of crossflows of financial resources. There are two problems that have to be solved simultaneously here: raising the level of sufficiency of enterprises and sectors of the economy with respect to financial resources; centralization of financial resources within optimum limits in the state budget of the republic to finance comprehensive republicwide target programs along the priority lines of the economy and culture of the RSFSR. An analogous effort must also be made at the local level—in oblasts, cities, and rayons (in relations with the respective local budgets).

During restructuring of the economic mechanism, there must be every concern about the problems of improving the soundness and observing the stability of standard economic rates and financial standards. Moreover, this needs to be done not only for the RSFSR as a whole, but also for its economic regions, which will make it possible to take into account the regional peculiarities of the group of oblasts and to reduce oversights in setting the standard rates for the region (oblast, kray) taken separately and in compiling draft budgets on the basis of those standards both with respect to revenues and with respect to expenditures.

There is also a need to enhance the role of economic analysis, forecasting, and evaluation of the financial results of the operation of sectors and fulfillment of the budget, fulfillment of the plan for state revenues, and collection of insurance payments using up-to-date data processing equipment and automated management systems.

In the context of the introduction of full cost accounting and self-financing and the broader rights and greater responsibility of enterprises and of soviets of people's deputies, and also in view of the fact that a deficit budget has been adopted for the first time, there is a growing need to work closely with scientists and to use computers in working out multivariant calculations of drafts of the republic budget and indeed local budgets as well.

This requires a substantial expansion of scientific research commissioned by RSFSR Minfin. At the present time, scientific projects related to finance are not

being done by most RSFSR ministries and departments that do not have corresponding entities at the union level.

An acute need has arisen to allocate necessary resources to RSFSR Minfin to engage scientific research institutes of the USSR Academy of Sciences, other scientific research institutes, and the republic's VUZ's to do scientific research in the field of the finance of the RSFSR. This is especially important in view of the supplements and amendments recently adopted to the USSR Constitution, which provide for full sovereignty of soviets of people's deputies.

At the present time, when there is a substantial increase in the need for information on the comprehensive development of the regional economy, for analysis of the efficiency of use of all the financial resources of regions, it is advisable for financial agencies to establish close working contacts not only with other economic entities, but also with computer centers, for example, those specializing in banking and statistics, as well as with collective-use computer centers associated with obls-polkoms, experience with whose operation has been gained in Sverdlovsk and a number of other places.

As is well-known, up-to-date economic methods of management require changes in the existing management structures and management functions and technologies so as to take into account refinement of schemes for management of the economy and the political administrative division, as well as the transfer of rights to the local level.

The reduction of the number of management personnel and corresponding reduction in expenditures to maintain that staff, which are being accomplished in the republic in connection with revamping the management structure and the transition to the new general scheme for management, are not an end in themselves. Constant care must be taken to optimize the structure and processes of management in the light of more optimum redistribution and utilization of labor resources, improvement of personnel qualifications, and the restructuring of their economic thinking. It should be borne in mind in this connection that this effort must be actively pursued not only by state administrative agencies, but also in enterprises and associations, where a sizable number of personnel of the administrative apparatus is concentrated.

As shown by the audits and checks conducted in enterprises, organizations, and institutions, the insufficient level of economic activity and all kinds of violations in the distribution and use of physical inventories call for paying closer attention to the questions of organizing bookkeeping, improving the organization of monitoring and auditing both on the part of ministries and departments and also on the part of the republic's financial system.

In the context of carrying out measures to speed up the comprehensive economic development of the RSFSR as a whole and of its individual regions, the socioeconomic functions of state insurance also are undergoing extensive changes. On the one hand, this is a separate and specific part of the service sector, while on the other it figures as an economic instrument for attracting the money resources of enterprises, organizations, and individuals and for later making payments to them that promote improvement of the social welfare of individuals when certain unforeseen events occur that are related to their life, their health, the condition of their property, and that also help to maintain the financial stability of enterprises. As enterprises make the transition to full cost accounting and self-financing, work is being done on the problems of developing relations between Gosstrakh agencies and enterprises to ensure against various technological perils when extraordinary production and economic circumstances come about.

Plans call for developing insurance in the future in the direction of fuller consideration of the economic and social interests of individuals in those services, introduction of new types of insurance, and improved quality of service to individuals and enterprises. In accordance with the model of cost accounting adopted in Gosstrakh agencies, stable rates of deductions from income received paid into the budget are envisaged; moreover, the sum total of these payments will go directly into the revenues of local budgets. In 1989, that amount will be about 450 million rubles. The major part of that amount goes into the budgets of cities, rayons, rural and settlement soviets, i.e., those areas in which Gosstrakh inspectorates actually carry out their operations. Assuming that Gosstrakh agencies operate effectively, soviets of people's deputies and their financial departments will have a guarantee of a strengthening of the revenue side of local budgets, which will facilitate timely and full financing of measures related to the comprehensive development of the respective regions.

The scale and complexity of restructuring of the republic's financial system impose large requirements as to personnel. Attention today needs to be concentrated on solving a number of problems. One of the most important tasks is to sharply improve the qualitative composition of personnel by substantially increasing the share of personnel with higher education. Business contacts with a number of VUZ's, including the Kazan Finance and Economics Institute, are being strengthened in that direction. A more vigorous effort is being made to enroll specialists of financial agencies in correspondence courses in VUZ's.

Another important task is to substantially improve the quality of training of specialists in financial tekhnikums of the RSFSR Ministry of Finance. The training of specialists in VUZ's and tekhnikums must take into account the requirements of restructuring the financial system, raising the level of management of finances over the entire territory of the republic, and effective use of

up-to-date data processing equipment and computers for these purposes. Particular attention should be paid to a practical solution of the problems of training specialists for insurance agencies of the RSFSR, which have begun to operate in the context of cost accounting.

The personnel effort must have as its objective a situation in which the specialists of financial and insurance agencies study regularly, raise the level of their knowledge and professional skills. Today, the amount of knowledge required is growing so fast that it is no longer possible to limit oneself to assimilating a certain total amount of facts and concepts. The individual has to develop in himself an ability to replenish his knowledge on his own and to keep abreast of the extremely rapid flow of economic and financial information. Educational institutions give the individual profound and varied knowledge. But the specialist has to spend his entire life broadening and deepening that knowledge. The entire activity of personnel in the financial system must be aimed at the formation and effective use of financial resources to guarantee the comprehensive and dynamic development of the republic's economy.

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### **Chernozem Zone Beset By Demographic, Resource Problems**

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[Article by O. Shakhova, head of a sector at the Council for the Study of Productive Resources of USSR Gosplan; A. Novikov, head of a sector at the Central Scientific Research Institute of Economics of Gosplan RSFSR and Yu. Tsukanov, chief specialist of USSR Gosplan: "Central Chernozem: Questions of Structural Perestroika"]

[Text] The role played by the TsChER [Central-Chernozem Economic Region] in the country's national economic complex is based upon the existence of unique supplies of iron ore raw materials, considerable areas of fertile chernozem soil and on the whole by favorable agro-climatic conditions. Located in the center of the European part of the country, at the intersection of important railroad and motor vehicle arteries, the region has at its disposal great opportunities for inter-regional production cooperation and participation in international socialist economic integration with CEMA member states.

At the same time, a number of serious problems in the region's economic and social sphere have accumulated over the course of an extended period of time. First of all, there is the tense demographic situation which has developed in the rural areas and the structural disproportions which have appeared in the economy as a result, on the one hand, of the accelerated development of the region's heavy industry and, on the other, the stagnation

in agriculture and other branches of the agro-industrial complex: the primary direction of capital investments for industrial construction and the clear failure to evaluate properly the development of the social sphere and measures aimed at nature conservation.

Commencing in the late 1960's, the size of the population in the Central-Chernozem region has constantly declined. During the last 15 years alone, it has dropped by 324,000 persons or by more than 4 percent. A most serious situation has developed in the rural areas. Here the population fell by more than 1.5 million persons during the 1971-1985 period.

There are many reasons for such a strong run-off of the rural population: severe working conditions (conditioned by a low level of mechanization), a limited selection for youth of specialties and professions, failure of the work and recreation regime in agricultural production to satisfy the needs of the people and a substantial lag in development of the social sphere in the rural areas compared to cities.

Since the principal contingent of migrants from rural areas consists of young people, during recent five-year plans the proportion of children and persons of able-bodied age declined by more than 9 percent compared to the region's overall rural population. Accordingly, the proportion of elderly persons increased. This has produced a situation in which the highest population death rate is now being observed in the rural areas of the Central Chernozem region, which has the lowest birth rate in the Russian Federation. Nor can any positive demographic improvements in the near future. Moreover, a further increase in the tense nature of the labor balance in agriculture cannot be excluded. Under these conditions, an important problem is that of retaining the rural population and normalizing the demographic situation. This can be promoted only by implementing measures aimed at raising the level of social development in the rural areas, improving working conditions and developing the cost accounting methods for economic management.

An analysis of the socio-economic development of the TsChER has shown that throughout the period from the 9th to the 11th five-year plans, in accordance with the indicators for the population's standard of living, the region fell noticeably behind other regions of the Russian Federation. During the 1971-1985 period, the wages of manual and office workers in the TsChER increased by a factor of 1.6 and the average monthly wage of kolkhoz members during this same period—by a factor of more than 2.2. Prior to the beginning of the current five-year plan, the per capita indicator for retail commodity turnover in the TsChER was the lowest among the economic regions of the Russian Federation. This indicator was affected to a considerable degree by the support provided in the form of trade areas, the number of

which is lower than the norm in all oblasts. The shortage in trade areas is especially acute in small and average cities.

Deserving of special mention is the fact that the per capita production of many types of agricultural products and products of the food industry is substantially higher in the TsChER than it is in the RSFSR. At the same time, in terms of the consumption of the more valuable food products, the TsChER lags behind the average indicators for the RSFSR and a number of economic regions.

One acute problem in the region continues to be that of ensuring the availability of pre-school facilities, the construction volumes of which are clearly inadequate. A shortage of spaces in kindergartens and day nurseries has resulted in these facilities becoming overcrowded and this has hindered the extensive use of young women in social production. In addition to other factors, the low availability of childrens' pre-school facilities in the region's rural areas has increased the migration of the population, especially the youth. The region occupies last place in the Russian Federation in terms of the level of availability of doctors for the population and there are not enough medical institutes in the rural areas: approximately one half of the rural populated points do not have public health institutions. Many of them are located at distances of 10 or more kilometers from hospitals, polyclinics and surgeons' assistants points. The TsChER also lags behind in terms of such indicators as the number of large-scale libraries, theatres, concert and exhibit halls and movie theatres.

During the period of the 9th through the 11th five-year plans, the availability of housing space for the region's population increased by more than 30 percent. However, the rates for housing construction are not keeping pace with the growth in municipal population and the problem of apartments in cities throughout the region continues to remain acute. In the rural areas, owing to the large run-off of the population, the availability of housing is somewhat better than in the cities, but the same cannot be said regarding the organization and planning of the rural housing fund.

Special attention must be given to reducing the differences that have appeared in the indicators for the development of the non-productive sphere in the municipal and rural areas, since in the latter the indicators for the level of national well-being are considerably lower than in the cities. Over the past 15 years, capital investments in the social sphere have been roughly three times lower per rural resident in the region than that for city-dwellers. Not more than 10 percent of the entire volume of capital investments allocated for agriculture was used for social development in the rural areas.

For an extended period of time, the priority and extensive development of the branches of heavy industry, which was accompanied by a considerable transfer of the

population from the rural areas to cities, was not reinforced by a corresponding industrial reorganization of the agro-industrial complex of the TsChER. The highly specialized approach for handling the problems of the region's economic development, displayed over the course of many years, brought about serious disproportions in the territorial and branch structures.

Many industrial ministries, under the guise of modernization and expansion, continued to carry out new construction in the oblast centers. This brought about a deterioration in the already tense economic situation, it created difficulties with regard to supplying the enterprises with man-power and it intensified the territorial concentration of the population and industry. In particular, a high level of concentration of industrial development appeared in the Lipetsk industrial center and in the territorial-production complex of the Kursk magnetic anomaly. At the same time, use was not being made of the opportunities available for the economic development of small cities.

Agricultural orientation was directed towards the construction of large livestock husbandry complexes, aquicultural and other capital-intensive installations and towards delivering a maximum volume of agricultural products to the state. In the process, neglect was displayed in the handling of social problems and in questions concerned with protecting soil fertility. As a result, the large volumes of investments used during the 9th through the 12th five-year plans for agricultural development in the region did not produce the return expected. The rates for increasing agricultural production during the past 15 years were the lowest of all of the economic regions of the RSFSR and the growth in labor productivity barely compensated for the reduction in the number of workers in the agricultural sector of the economy. Until recently, declines were noted in the cropping power and gross yields of grain crops, sunflowers and potatoes.

More than four fifths of the agricultural lands of the TsChER consist of chernozem soils. However, the objective laws for an efficient farming system are often ignored. As a result of mismanagement of the land, violations of the crop rotation plans and the weak introduction of soil-protective technologies, the chernozem soils are losing humus and becoming sour, their structure is breaking down and the fertile layer is diminishing in size.

Despite the warnings of specialists, the wasteful removal of land from agricultural use is continuing and the scale of open pit iron ore mining is expanding. The areas occupied by waste rock dumps and the waste products of mining-enrichment combines are increasing in size. The recultivation of land devastated by mining operations is being carried out in an extremely unsatisfactory manner. The disintegration and washing away of waste dumps is

causing a build-up of dust conditions and bringing about a deterioration in the quality of the soil structure in adjoining territories.

The negative trends in land utilization are aggravated by the fact that full use is not being made of the funds being allocated by the state for protecting and using the land in an efficient manner, albeit very effectively. According to calculations by specialists, in order to obtain 1 ruble of increase in the gross output of field crop husbandry operations, the expenses for improving the land amount to 11 kopecks, or lower by a factor of 1.9-3.7 than in other regions of the country.

The potential for progressive changes in the work of the APK [agro-industrial complex] in the Central Chernozem region is associated first of all with the problem of restoring and increasing the fertility of the chernozem soils. Historically, rich experience has been accumulated in the region in forest reclamation in the Kamen Steppe area, where a scientific center for the chernozem zone is located and where high and stable yields have been obtained over a period of 100 years. In conformity with the conditions for each oblast, intensive technological systems were developed for managing production and also methods for introducing them, including a determination of the agricultural machine system needed, the use of which will promote an increase in soil fertility and, at the same time, in the yields. For example, the use of implements for the non-mouldboard tilling of soil is directed towards retaining moisture in the soil and combating weeds and soil erosion simultaneously. The low rates for agricultural development in the Central Chernozem region, non-fulfillment of the plans for state purchases of agricultural products, the lag in developing the capabilities of the processing branches of the agro-industrial complex and the irrational distribution and weak logistical base for its enterprises have all served to bring about large national economic losses. According to data furnished by TsENII [Central Scientific Research Institute of Economics] of Gosplan RSFSR, the losses sustained during the 11th Five-Year Plan alone in the harvesting of grain crops and in the processing, transporting and storing of grain reached an annual average of 2.0-2.6 million tons. If we assume that this amount of grain was compensated by imports, then its losses to the state would amount to 160-200 million dollars annually. During this same period, the annual losses in potatoes amounted to 0.7-1.3 million tons and sugar—0.9 million tons.

The growth in the volumes of food goods throughout the region is restraining the shortage of processing capabilities in the meat industry. The proportion of manual labor at meat combines is 70 percent, many of them lack purification installations and in accordance with the existing sanitary norms they should be closed down. There is a shortage of refrigeration capabilities and the meat combines are beginning to hold up the acceptance of livestock for processing. There have been frequent incidents in which meat delivered for storage has been

held in freezers for up to 2-6 years awaiting shipment orders from USSR Mintorg [Ministry of Trade]. In the process, the low temperature (-18 to -23 degrees) regime for the storage of meat in freezer compartments is not being observed (it is actually no lower than -5 degrees). There have been instances involving the storage of freshly dressed carcasses in facilities ill-adapted for the purpose. And all of this is taking place under conditions involving an acute shortage of meat products.

The local construction base is extremely weak in the TsChER. At the present time, only 52 percent of the region's planned requirements for gravel are being satisfied by means of intra-oblast production and funded deliveries. Shortages are also being experienced in construction sand and other materials.

Much has been accomplished over the past 15 years in connection with correcting the unfavorable situation in the economy, social sphere and ecology of the Central-Chernozem economic region. In particular, measures were carried out directed towards the economic and social development of Tambov Oblast and the cities of Staryy Oskol and Gubkin in Belgorod Oblast and in behalf of the accelerated development of agriculture in the TsChER. Measures were carried out even earlier aimed at ensuring construction of the Oskol Electro-Metallurgical Combine (involving use of the latest technology). It became the nucleus of the territorial-production complex of the Kursk Magnetic Anomaly. Summary plans were prepared and approved in USSR Gosplan for the capital construction of the territorial-production complex of the Kursk Magnetic Anomaly for the 11th and 12th five-year plans and also the annual plans for 1983-1987. Commencing in 1988, such plans are being formed by USSR Gosplan. Their implementation has played a positive role. The volume of purchases of agricultural products and the deliveries of such products to other regions of the country have increased. In recent years, a number of improvements have been noted in the demographic situation.

However, by no means have all measures been carried out fully and on schedule. Here the situation has been affected by use of the departmental approach, by a lack of timeliness in the provision of logistical support, by a lag in increasing the capabilities of the construction base, by a disruption in planning discipline and, most seriously, by the absence of direct interest on the part of the labor collectives of industrial enterprises, kolkhozes and sovkhozes in carrying out the planned tasks.

The introduction of the new economic mechanism and the use of economic methods are laying the foundation for successfully solving the problems concerned with the country's social and economic development. Given the conditions found in the Central Chernozem economic region, this must ensure the realization of all of the opportunities afforded by its rich agro-climatic resources and the economic potential and advantages of its geographic position.

In particular, during the course of further improving the new economic mechanism, an examination must be undertaken of the possibility of industrial enterprises utilizing their own resources within the sphere of the agro-industrial complex.

A number of scientific organizations (VASKhNIL [All-Union Academy of Agricultural Sciences V.I. Lenin], the Soil Institute imeni V.V. Dokuchayev, the Scientific Research Institute of Agriculture for the Central Chernozem Zone imeni V.V. Dokuchayev, the Central Chernozem Plant Breeding Center and TsENII of RSFSR Gosplan) could develop, within the next few years, a method for multiple-factor analysis in forecasting the yields of specialized crops by regions of the TsChER. A need also exists for creating a network of methodological cybernetic centers (initially in oblast cities) which, on a cost accounting basis, would systematically compute a multiple-factor forecast for high yields, while taking into account the conditions found at the specific farms.

The efficient utilization of nature, under the conditions found in the Central Chernozem region, is a most urgent aspect of long-range planning. The trend that has now been selected for developing mining operations in the basin of the KMA [Kursk Magnetic Anomaly] and the plans for creating new open pit mines for iron quartzite are in conflict with the tasks associated with the efficient utilization of nature in the Central Chernozem zone (more than 30,000 hectares of land have already been disturbed). At the same time, the principal iron ore deposits (southern part of Belgorod Oblast) continue to await the introduction of the latest underground mining technologies. The construction of the Yakovlev Experimental-Industrial Mine (rich in ore) has been dragged out for decades and continues to be held up. Computations carried out in SOPS [Council for the Study of Productive Resources] of USSR Gosplan have revealed a considerable reduction in the comparative economic effectiveness of open pit mining of iron ore in the KMA Basin—by a factor of almost 1.5. Taking into account the planned expenditures for the recultivation and improvement of disturbed land, we note a substantial increase in the capital investments required for the construction of mining and enrichment enterprises of the KMA. The specific capital investments for protecting the environment during open pit mining operations in the KMA must reach 10-15 rubles per ton of marketable ore. Thus the economically efficient zone for the use of ore from the KMA Basin is being reduced substantially in size and the scale for developing the production of this ore will be determined mainly by the capabilities of the metallurgical enterprises in the European part of the country.

In future years, when developing the KMA Basin, attention must be focused on the intensive factors: an expansion in the all-round working of deposits and the study and introduction of the latest technologies for the mining and production of iron ore. In particular (in accordance with a recommendation by KEPS of the USSR Academy of Sciences), there may be efficient bio-geotechnological

systems which will make it possible to extract almost completely the supplies of iron (without the traditional exposing of a deposit) in the form of water suspensions, with subsequent conversion of the iron hydroxide, while by-passing the blast furnace process, into high quality iron powder. The tremendous and valuable supplies of ore of the KMA (southern part of Belgorod Oblast) are making it possible to develop such operations on an industrial scale at deposits of the Vislovskiy type and this will radically change the structure of the traditional technologies employed in the production of ore.

Scientific and planning studies have proven the technological possibility and economic advisability of using the waste rock from open pit iron ore mines and the waste products of mining-enrichment combines within the territorial-production complex of the KMA and the requirements for non-metal products from this rock have been defined. The territory of the basin is still left with the acute problem of converting over to low-waste and waste-free enrichment technologies (with closed water circulation systems).

In improving the economy of the Central Chernozem region, great importance is being attached to developing the medium-size and small cities. A need exists in such cities for carrying out the reconstruction and technical modernization of existing production and social installations and the construction of modern processing facilities, hard surface roads and others.

Economic norms (rules of construction) should be developed for the intra-oblast distribution of those productive forces which stimulate the development of medium-size and small cities. Obviously, under the conditions found in a given region, in addition to the economic methods, it is impossible to proceed in the absence of stern restrictions being placed upon the withdrawal of land for non-agricultural construction. We believe that restrictive measures with regard to the placement of industrial enterprises in oblast centers and within the zone of the territorial-production complex of the KMA should be retained as additional measures. This applies first of all to the production of steel and cast iron using the traditional technology, to an expansion in the extraction of iron ore using the open pit method, to the construction of new enterprises of the basic branches of the chemical industry and to an expansion in production at existing enterprises.

For a given region, special importance will be attached to those statutes of the Law Governing a State Enterprise (association) which regulate the relationships of enterprises and local soviets, those questions concerned with social development, the utilization of nature and environmental protection.

It is our opinion that the normative payments for the use of natural resources in the Central Chernozem region should be higher than those in neighboring regions. This pertains in particular to such a resource as water. The

region is experiencing an acute shortage of water, located as it is in the watershed of the large river basins of the European portion of the RSFSR. Thus the status of the water resources of regions located along the lower portions of the rivers is dependent upon its aquicultural activities. It is our opinion that a raised payment should also be established for the unique chernozem soils. The norms for the cost of developing new lands, in return for that withdrawn for non-agricultural purposes, have very little effect any more with regard to limiting the removal of agricultural lands for new industrial construction. Thus, computations on the comparative economic effectiveness of the distribution of various industrial production operations by regions of the country have shown that the "land factor" in the structure of the mentioned expenditures does not exceed 1-2 percent, that is, it is not viewed as one of the principal factors. However, it is generally known that the "price of land" in industrially developed capitalist countries is by no means the final factor affecting the placement of an industrial enterprise.

A need exists for examining the existing system for the territorial distribution of food goods produced in the Central Chernozem region. Approximately one third of the grain, 40 percent of the meat and dairy products and 75 percent of the sugar are exported from this area. In the future, the region must continue to be the largest supplier of food goods for industrial centers. However, one can hardly consider as normal a situation in which many of the region's populated points will themselves experience shortages in the principal food products.

In order to correct the region's agricultural situation, more extensive use must be made of the new methods for organizing agricultural production: leases, family and collective contracts and others. Throughout the region, the conditions are adequate (multiple-branch structure, existing labor traditions and high worker skills on the whole) for ensuring that all enterprises (both industrial and agricultural) operate in accordance with the principles for self-recoupment and self-financing.

At the same time, solutions for the problems which have accumulated over an extended period of time are impossible in the absence of centralized state assistance. This problem is first of all concerned with the conservation and restoration of land resources. A complex of measures must be implemented directed towards reducing the amount of plowing being carried out on the territory, ensuring the active carrying out of forest reclamation work, the elimination and prevention of the forming of ravines and the exercising of strict control over the use of mineral fertilizers and toxic chemicals.

In addition to the resources of enterprises, a need exists for capital investments for work concerned with the recultivation of land, the utilization of waste rock and the waste products of mining-enrichment combines in the KMA zone and the introduction into industry of waterless and low water-intensive technologies.

The development of a special purpose all-round program for the planned regulation of the economics of the Central Chernozem region (with the clear formulation of tasks for each oblast) appears to us to be advisable. The general program for the development and distribution of the productive forces on a long-term basis must play a great role in determining the scientifically sound paths to be followed for the economic and social development of the Central Chernozem region in the future.

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### **New Minsk Commercial Bank To Support Technological Progress**

*18200150a Minsk SOVETSKAYA BELORUSSIYA  
in Russian 6 Dec 88 p 4*

[Item by K. Stolyarchuk (BELTA): "The Innovator Goes... to the Bank"]

[Text] The new financial body, that is, the Innovative Bank (MIB), which has just opened in Minsk, is not subject to departmental ambitions. It will begin to realize the dreams of innovators and to financially stimulate the initiative of collectives of scientists and production workers and of individual enthusiasts of scientific and technical progress. The MIB will direct its main efforts toward the development and introduction of the most efficient inventions and innovations and rise in the technical level and competitiveness of Soviet equipment and consumer goods.

Twelve founders, including the republic's ministries of light industry and education, the Belorussian Republic Council of the All-Union Society of Inventors and Efficiency Experts, the BSSR Academy of Sciences, motor vehicle and tractor plants, and the youth cost-accounting Vektor Association made voluntary deposits in the MIB's fund.

The commercial bank exists thanks to shareholders. The filling of the "portfolio of orders" will begin soon. In addition to the latest innovations, it will have valuable ones, which previously did not find financial support owing to bureaucratic delays.

### **Cotton Industry Beset by Bankruptcies**

*18200150b Tashkent PRAVDA VOSTOKA in Russian  
18 Dec 88 p 2*

[Article by V. Rudakova, Syr-Darya Oblast: "Bankrupts"]

[Text] A wave of bankruptcies has swept across Syr-Darya Oblast in recent months. The matter has not yet reached the point of auctioning off of enterprise property, but the extension of credit to enterprises has been stopped. The Bayautskiy Cotton Cleaning Plant was declared the first insolvent plant. Then it was the turn of the Malekskiy Cotton Plant, the interkolkhoz mobile

mechanized column-48, and the Asalchi Beekeeping Sovkhoz. Furthermore, the Ilichevsk Cotton Plant and a number of other enterprises are candidates for insolvent debtors.

This unusual phenomenon for the Hungry Steppe Region is the consequence of the working conditions of the oblast Agroprombank [Agro-Industrial Bank], which have changed sharply as of this year.

"Previously, a certain limit for crediting was allocated for the oblast and many lived in a carefree manner, drawing from the state pocket liberally," D. Uslyamova, the bank's deputy manager, says. "Overdue loans grew and this did not alarm anyone. Now we strictly depend on the real sum of planned volumes of credits for enterprises, farms, and organizations of the agro-industrial complex. Money is not allocated for them on the expectation that overdue loans will be liquidated. Every ruble counts. We will not permit that they be squandered liberally, as before."

On the list of those that have already been or will be declared insolvent the "priority" is given to cotton cleaning enterprises. Out of 10 plants (we have in mind Syr-Darya Oblast within the old borders) only Bakht cotton cleaners work profitably. The following question arises: Why precisely have cotton plants fallen sick?

B. Khaydarov, director of the Malekskiy Plant, who was elected to the post at a general meeting of the labor collective not long ago, tries to keep calm:

"Although we are bankrupt, credit for the purchase of raw cotton was allocated to us. The most difficult thing was that we had to wage a war with deliverers, who transported raw cotton at night. Nevertheless, we accepted cotton with parameters of weediness higher than maximally permissible by the All-Union State Standard—12 to 13 percent with a norm of 10. Furthermore, the AN-Bayaut-2 variety lends itself to processing with difficulty owing to the very weak seed film. It easily tears away together with the fiber and no, even the most improved, equipment is able to give a high-quality fiber. Textile industry workers fine us for this."

Someone else's concerns... For the delivered cotton the plant immediately pays 90 percent of the cost to the farm. At the checkpoint raw cotton is weighed together with packaging materials, the weight of the cart is subtracted, and the necessary quantity is obtained. But it can be increased artificially by mixing it with earth, disguising it well (so that there is no high discount), and bringing it to the procurement point at night, when the vigilance of harassed laboratory workers and classifiers is dulled. And if the plant, nevertheless, manages to obtain an above-plan yield of fiber from the procured raw cotton, it gives back the remaining 10 percent with a makeweight to its partner: The deliverer receives four-fifths of the above-plan profit and the processor, the rest.

However, in case there is no yield, the farm and the plant equally share financial responsibility.

Fortune, that is, the instruction, obviously is not on the side of the processing enterprise, nor are other local party and Soviet workers and RAPO representatives on its side. Many with whom I had occasion to talk at procurement centers and cotton plants, to the question as to whether the command and pressure from elsewhere also hold sway over them today, confirmed, some evasively and some openly: Yes.

It is difficult for the acceptance clerk to hold his ground under such conditions. At the Donaryk Procurement Center on the Mirzachul Sovkhoz in Yangiyskiy Rayon the attempt by commodity expert D. Mukhitdinov to turn back a cart with a weediness of 19.9 percent, which exceeded the maximally permissible weediness twofold, produced an outburst of indignation on the part of the management.

The fiber shipped as high-grade (in accordance with the accepted raw materials) is mercilessly converted into lower-grade fiber at textile enterprises. Textile industry workers have the right to fine suppliers and they use it in order not to have losses. The cotton plant does not have such a right. It cannot independently convert the accepted raw materials into lower grades. Nor does it have the right to fine farms for rejects—this has also not been given to it.

I will present the results of economic activity of the Malekskiy Cotton Plant in the processing of the 1987 harvest as a demonstration. Losses from the reduction in fiber gradings totaled 497,000 rubles and owing to the lack of fiber yield, 598,000. A total of 504,000 rubles were lost owing to the low quality of seeds and 168,000 rubles, owing to the fact that their efficiency was not ensured. The overexpenditure of raw cotton totaled 1,485 tons. All this made the enterprise bankrupt.

The time has come to uncover the mechanism of incurring losses. Let us take the following apportionment as an example. The production of 1 ton of first-grade An-Bayaut-2 cotton (with due regard for the cost of raw materials paid to the plant) costs 2,140 rubles. However, the factory, transferring it to the second grade according to the sum of expenses (a direct consequence of the high weediness), pays only 1,970 rubles. A total of 170 rubles represent a direct loss per ton alone. The 500,000 rubles of losses owing to the transfer of fiber to low grades and the same amount owing to transfers of seeds obtained by Maleskiy plant workers from their work are the direct results of the rightless and dependent situation of cotton plants, which proved to be the most vulnerable and unprotected link in the established system of economic interrelations. Furthermore, the lack [sic] of yield of fiber—the reverse of the same phenomenon—of increased weediness and moisture. Although the 1984 instruction "On the Procedure and Conditions of Settlement With Kolkhozes and Sovkhozes Forming Part of

Agro-Industrial Associations for the Production and Processing of Raw Cotton" stipulates the point that both parties bear responsibility for the final result, in practice it remains a high-sounding, but useless, phrase. The Malekskiy Sovkhoz, the Leningrad Kolkhoz, and the Kolkhoz imeni Lenin in Syrdarinskiy Rayon, which deliver raw materials to the Malekskiy Cotton Plant, in contrast to the bankrupt, come out with profits of millions of rubles annually.

Cotton plants are seriously sick and this is evident from the high personnel turnover—20 percent annually. People reluctantly go to the harmful and low-paid production. The average wages of highest-category fitters at the Gulistan Cotton Plant do not exceed 120 rubles. Even thought has ceased to be given to bonuses here. Major

repairs are now carried out with the help of experts brought from other plants in the republic. The lack of profits affects the formation of internal economic funds. As a rule, they are scanty and bring no improvement in people's moods.

At the Bayautskiy Cotton Cleaning Plant (also a bankrupt) the last apartment was received 15 years ago. However, the following is the most impressive figure: At 10 cotton plants in 10 years 40 directors were replaced.

The bankruptcy and difficult financial position of cotton plants is the consequence of unhealthy economic conditions. The serious ailment is not an accident. It is time to begin its cure.

## POST-PROCUREMENT PROCESSING

### Attention Called to Needs of Storage, Processing Sectors

18240085 Moscow *PLANOVOYE KHOZYAYSTVO*  
in Russian No 2, Feb 89 pp 77-82

[Article by Ye. Belov, deputy department chief of the USSR Gosplan, under the rubric "The Country's Agroindustrial Complex": "The Priority Nature of Storage and Processing of Agricultural Products"]

[Text] Reducing losses of agricultural products is an important reserve for replenishing the food fund. The priority direction of capital investments and resources for strengthening the material technical base of storage and processing of potatoes, vegetables, and fruits. The need for a considerable increase in industrial equipment for processing sectors and for improving transportation support of the agroindustrial complex. Stepping up the pace of capital construction of facilities for the processing industry.

In the agroindustrial complex, new methods of economic management are becoming firmly established; intensive technologies are being assimilated; changes are taking place in the social development of the rural areas; and a modern industry of processing, storing, and marketing of agricultural products is being created. As a result of implementing these measures, in the 3 years of the current 5-year plan, the gross output of agriculture, compared to the average annual level of the 11th Five-Year Plan, has increased by 9.3 percent, meat production (dressed weight) has increased by 15 percent, and milk and egg production has increased by 10 percent. Commodity production of processing sectors of the industry has increased by 11 percent during these years; the volume of food products in 1988 increased by 22.4 billion rubles, or by 19 percent compared to 1985.

The increase in production of agricultural products has also had an effect on per capita consumption of food products. During the period following the May (1982) CPSU Central Committee Plenum, per capita consumption of meat increased by 6 kg, milk by 41 kg, fruits by 12 kg, and vegetable oil by 0.5 kg, with an annual population growth of 2.6 million. Nevertheless, the population's demands are not being met, particularly for meat and dairy products, fruits, and vegetables. The country is forced to purchase a large quantity of foodstuffs abroad. Consequently, workers in agriculture and associated industrial sectors have to pick up the pace and make maximum use of reserves for increasing the production of food products.

An important source for replenishing the food fund is reducing losses of agricultural products during harvesting, shipping, storing, and processing. As M.S. Gorbachev noted at a meeting of directors of kolkhozes, sovkhozes, and other enterprises of the agroindustrial complex using lease contract, "If we today processed all that the kolkhozes and sovkhozes are producing, took,

harvested, transported, stored and processed, and delivered it to the counter, to the consumer, we would have a minimum surplus of 25 percent, and by some positions, 40 percent."<sup>1</sup> Problems of storing, processing, and transporting agricultural products are extremely urgent today. In order to radically change the state of affairs in a short time, we need an innovative approach to the re-equipment and in-depth modernization of the material and technical base of these very important sectors of the national economy.

A comparative analysis of agroindustrial production in our country and abroad indicates that, in the developed countries of the world, processing of agricultural raw materials, cooling and storage facilities, packaging, and specialized transport and shipping, and sale of products account for a considerably greater proportion in the structure of basic production assets and material and labor costs. This makes it possible to prevent losses and reduce the demand for raw material for producing food products. Whereas in the United States, for example, the proportion of costs for the processing, storing, transporting, and selling agricultural products is 73 percent of the overall costs, in our country it is only 23 percent.

There are many reasons for the losses of the agricultural harvest and the products of its processing. The main reasons are associated primarily with the insufficient level of development of the material and technical base of agroindustrial complex sectors. Quite a bit is lost for organizational reasons, that is, due to non-observance of processing methods and discrepancies in the work of enterprises and shops of related sectors. Typical examples of these losses are the loss of sugar beets due to a lack of coordination in the work of sugar refineries and the kolkhozes and sovkhozes growing the sugar beets, or the loss in weight of livestock due to untimely acceptance at the meat-packing plants. In addition, there are losses from natural disasters and from ignorance and non-observance by farms and the populace of technologies of storing and processing the products. The size of the losses also depends on the quality of the vegetables and fruits being put up for long-term storage, the state of the environment when they are being grown and harvested, the sanitary level of the storage facilities, and the time the fruits and vegetables are there.

The problem of reducing losses requires a comprehensive and planned solution. Strengthening and renovating the material and technical base of the agroindustrial complex are of very great importance in the system of measures aimed at radically improving the population's food supply.

Agriculture and the sectors of the processing industry have still not been provided the means of production in the amount and structure corresponding to the areas being cultivated, the total number of available livestock, and the volumes of products to be processed, transported, and stored. Not in a single sector of farming are

the production processes fully mechanized, and in livestock breeding the level of mechanization is 60-70 percent. The extent of equipment of kolkhozes and sovkhozes with basic production assets is 65 percent of the standard requirement. About 70 percent of the agricultural workers are employed in manual labor.

**The storage base is weak.** In many regions, there is a shortage of elevator capacities for grain. Provision of kolkhozes and sovkhozes with storage facilities for fruits, vegetables, and potatoes does not exceed 64 percent, and for feed it is even lower. A significant portion of the capacities does not have cooling and active ventilation systems. The sugar industry is provided with only 14 percent of the concrete storage areas with active ventilation for storing sugar beets. Proper conditions for storing potatoes have not been created at the majority of starch and syrup enterprises. The demand for frozen-food refrigerators is only half met. Many enterprises, even in the meat and dairy industry, have a shortage of refrigerators; because of this, progressive technologies are introduced slowly, and a significant portion of the products perishes before it reaches the consumer. According to experts' data, potato losses in pits reach 28 percent, and vegetable losses in non-standard storage facilities are up to 30 percent.

The amount of losses of agricultural products depends to a considerable extent on **road conditions**. According to data of the All-Union Scientific Research Institute of Information and Technical and Economic Research of the Agroindustrial Complex, the country's annual losses of agricultural products due to bad roads are more than 5 billion rubles. Today, up to 70 percent of the shipments of kolkhozes and sovkhozes are transported on dirt roads, over bad roads, and in field conditions; 155 rayon centers (5 percent of the total number) and 3,000 kolkhozes and sovkhozes (6 percent) do not have reliable motor transport links with all-purpose roads. Therefore, it is extremely important to step up the pace building primarily hard-surface roads. Thus, in the Non-Black Earth Zone of the RSFSR, between 1988 and 1995 it is planned to link by hard-surface roads the capitals of the autonomous republics and oblast centers with all rayon centers, and the latter with central farm centers, kolkhoz and sovkhoz branches, farms, and other installations. It should be stated that capital investments in road construction quickly pay for themselves. Every ruble invested in building rural highways gives a return of about 4 rubles.

The agroindustrial complex is putting forward a number of specific demands on transport. Timely delivery of agricultural freight in all links and at all stages of production is required to preserve quality and eliminate product losses. Unfortunately, the agroindustrial complex is insufficiently supplied with specialized transport. The available fleet of refrigerator transport is able to haul only 65 percent of the perishable products; the rest is delivered by regular trucks and rail cars and, consequently, is subjected to spoiling.

One of the most progressive methods of reducing losses of products during storage is flash and deep freezing, which makes it possible to preserve as much as possible the initial qualities of the raw material and to save on packing and energy resources. In all developed countries, production of flash-frozen products, including fruit and vegetable products, has been accomplished for a comparatively long time and is a powerful sector of the food industry. The annual per capita consumption of flash-frozen vegetables in Denmark, for example, is 5.9 kg, and in Great Britain, Sweden, and France it is 4.1-5.7 kg. But in our country, this sector is beginning to be created. In 1986, a total of 15,000 tons of flash-frozen fruit and vegetable products were produced.

A large reserve for replenishing food resources is **ensuring efficient and complete processing of agricultural and fish raw materials, and expanding the assortment and improving the quality of food commodities**. However, the processing industry seriously hinders the use of these capabilities, not properly ensuring fulfillment of the functions for which it is responsible. For a long time now, the processing sectors have been lagging behind the needs of the economy in their development, and this lag is continually increasing. With the increase in the production of agricultural products, the commissioning of processing capacities has been reduced sharply. For example, during the 11th Five-Year Plan, compared with the 9th Five-Year Plan, it decreased by a factor of 2.3 for meat processing, 1.7 for whole milk products, and 1.6 for cheese production, although in agriculture the average annual meat production increased by 16 percent, and milk production by 8 percent. The situation did not improve in 1986-1987. Meat production increased by 13 percent in 1987 compared to 1985, but meat processing capacities increased by 5.3 percent; milk production increased by 5.2 percent, but processing capacities increased by 3.6 percent.

A significant number of the enterprises of the processing industry are dilapidated. Many of them were built back before the revolution or during the first 5-year plans. Replacement of outdated and obsolete production assets does not exceed 2 percent per year. Labor is only 40-60 percent mechanized. Only 19 percent of the currently operating enterprises and individual shops meet modern requirements; 38,000 installations need modernization.

Due to the insufficient production and technical base in the meat industry, meat and valuable types of protein raw material such as blood, bone and so forth are being lost. In the dairy industry today, more than half of the enterprises do not have purification works, and more than 1,000 have been operating for more than 30 years; 40 rayons of the country, each purchasing 10,000 tons of milk, do not have dairy industry processing enterprises on their territory. Only half of the resources of skim milk and whey is used for making dairy food products and whole milk substitutes.

It is quite interesting to note that in the U.S. today, more than 70 percent of the whey and 90 percent of the skim milk and buttermilk is processed into food products, and the rest is returned to the farms or used as fertilizer. The transition in this country to a waste-free (low-waste) technology of processing milk not only has a favorable effect on the environment, but also enriches the food system directly or indirectly with hundreds of thousands of tons of very valuable food products in the form of dry or condensed skim milk, cheese, casein (milk protein precipitated with acids), various caseinates, enriched milk protein, dry whey with various protein content, and others. These products are widely used in making baby food, dietary dairy products, drinks, in the confectionery and baking industry, and for making ice cream and other things. Part of the products are sent for making whole milk substitutes for calves, which makes it possible not only to mechanize the feeding of veal calves, but also to bring the saleability of milk on farms to 98 percent.

In the process of harvesting, procuring, and processing sugar beets, there are great losses, resulting in the country losing about 1 million tons of granulated sugar. In recent years, sugar beet losses have not reduced, but have reached 9 percent of the gross harvest yield. The sugar industry does not have reserves for processing all raw material in optimal times. During bumper-crop years, the length of the sugar beet processing season in a number of regions of the country reaches 120-140 days, compared to the optimum season of 90-110 days, which results in significant losses of sugar beets and sugar.

During the massive harvest, there are also large losses in fruit and vegetables that are not fresh when they hit the market. There is also lacking a large-scale industry for processing potatoes, which is why they are provided mainly in natural form to the population. Extended storage of potatoes decreases their taste and nutritional qualities and results in losses. It should be noted that in the U.S. in 1985, 50 percent of the potatoes intended for food were processed, and only 31 percent of the tubers were consumed fresh. Now the American market has about 60 products made from processed potatoes, and 10-12 new ones are in the stage of development. We produce only 9 products.

Development of the processing sectors of industry is being held back by their **lack of progressive equipment**; the manufacturing equipment of many of the most important types is delivered at 30-60 percent of the amount needed. The situation is particularly unsatisfactory in the sub-sectors of industry: confectionery, butter-fat, food concentrate, fruit and vegetable, and potato processing. At a number of processing enterprises, production equipment is obsolete, worn out, and requires immediate replacement: 26 percent in the food industry, including about 42 percent in the sugar and starch-syrup industry; 33 percent in the meat industry; and 27 percent in the dairy industry. The low technical and economic parameters of existing machinery do not make it possible

to ensure a high product quality and raise labor productivity. The percentage of imported equipment in the food industry is 39 percent; about 32 percent in the meat industry; and 36 percent in the baking and confectionery industry. Many domestic types of machines and production lines do not correspond to modern requirements for productivity, reliability, and degree of automation.

The direction of the investment policy of the agroindustrial complex changed significantly in the 12th Five-Year Plan. Priority was given to development of tractor, agricultural, and food machine building; processing sectors of industry; the storage base; and road construction. Development of these machine building sectors made it possible to increase the output and delivery of machinery and equipment to the agroindustrial complex. In 1986-1988, agriculture received 1,132,000 tractors and 984,200 trucks and agricultural equipment amounting 22.2 billion rubles, including machinery and equipment for livestock raising and feed production amounting to 9.3 billion rubles. Compared to 1981-1983, deliveries of tractors increased by 0.4 percent, trucks by 16 percent, and agricultural machinery by 27 percent. Production and deliveries of manufacturing equipment for processing sectors of industry increased 1.5-fold. The increase in deliveries of specialized motor vehicles to the rural areas has made it possible in recent years to develop a progressive method of accepting agricultural products directly at the kolkhozes and sovkhozes and ship it by the transport of procurement organizations. Today, more than 54 percent of the milk and 58 percent of livestock being delivered are accepted in the localities of their production, and by the end of the current 5-year plan the transition should be complete to acceptance and shipment from the farms by transport of the purchaser of livestock products, as well as potatoes and fruit and vegetable products.

Radical changes must be made in the shipment of perishable agricultural raw materials and food products. By 1995, the USSR Gosplan, Gossnab, and Gosagroprom plan to expand the shipment of freight by refrigerated transport by 30-35 percent, in tanks by 20 percent, and in packages and containers by 1.6-fold. New types of refrigerated equipment are being developed. Implementation of this program will make it possible almost completely to ensure shipment of perishable products by specialized transport and to reduce losses of raw material and products during shipment by 1.5-2 billion rubles a year.

Between 1986 and 1990 it is planned to put into operation 1.3-fold more storage facilities for potatoes, fruits, and vegetables than in the 11th Five-Year Plan. In 1986-1987, the target for construction of these facilities was fulfilled by 146 percent in agriculture. It should be noted that the money spent on building storage facilities for fruits and vegetables is recovered in 1.5 and 3 years, respectively.

When building storage facilities, it is very important to see that they are effectively located; this will make it possible to reduce product losses noticeably. For example, the annual state purchases of potatoes in our country are 16-18 million tons. The bulk of the food potatoes are stored in the cities, which is not justified either from an economic or organizational standpoint. With the high volume of shipments of potatoes to cities and industrial centers and the short periods of procurements being conducted during the harvest, it is not possible to grade them or even pick out the damaged tubers. Potatoes are delivered to the city storage facilities from diversified farms in small batches with considerable mechanical damage (due to the imperfection of harvesting equipment and technology). They have poor taste qualities, increased moisture content, and an undetermined grade and storage life. When the potatoes are all stored under the same conditions, this leads to massive rotting of the tubers. Experts estimate that up to 50 percent of the potatoes purchased by the populace in the state retail trade system go to waste. Up to 12 percent of the substandard potatoes are shipped with dirt to the potato storage facilities and bases of the cities; therefore, a considerable portion of them are shipped back spoiled in the winter and spring as livestock feed.

By shifting storage of food potatoes from the cities to the areas where they are grown and by changing the storing technology, the amount of handling of this delicate product can be reduced one-third to one-fifth. According to data of scientific research institutes, when vegetables and potatoes are stored for an extended time at the areas where they are grown, the losses are reduced by 10-15 percent, capital outlays are cut in half, and expenditures for shipment, storage, and sale are reduced by 30-40 percent.

Moscow Oblast has gained experience in efficient positioning of potato storage capacities directly on the farms. For example, three fruit and vegetable offices in Moscow build their storage facilities at the Rogachevskiy Kolkhoz. Delivering the tubers to the city not during the harvest but in the winter made it possible to save a significant portion of them, and unmarketable potatoes were fed to the livestock in a timely manner.

To speed up the construction of modern storage facilities, the USSR Gosagroprom has created two plants for industrial production of storage facilities of light metalwork. In 1986-1988, they fabricated and installers set up 450 of these, designed for one-time storage of 600,000 tons of products. By the end of the 12th Five-Year Plan, these capacities will increase even more.

In 1986-1988, more refrigerators were also put into operation in the meat, dairy, and fish industry. The USSR Gosagroprom's organization of industrial production of freezers made of light metalwork at the Alatyr Metalwork Plant will help speed up construction of refrigerators. Building refrigerators on an industrial basis will speed up getting them in service by a factor of

1.5-2 and reduce the labor-intensiveness of construction and materials used in installation.

A qualitatively new base for storing agricultural products will make it possible to use flash cooling and freezing, put them in a controlled atmosphere, introduce automatically controlled processes of active ventilation, and use effective polymer film, including for packaging.

Of great importance for reducing losses are: supplying enterprises and **improving standards and technical documentation** governing the requirements for the methods and rules of accepting products; developing and revising state standards for the main types of agricultural products; developing sectorial standardization of production processes in plant growing and livestock breeding; expanding the use of measuring devices and instrument methods of control in all production processes of agricultural production, procurement, storage, and shipment.

Between 1988 and 1995, capital investments in the amount of 77 billion rubles are being directed toward new construction, technical re-equipment, and modernization of production and non-production facilities of the processing industry sectors. The ministries and departments that make up the agroindustrial complex, as well as local soviet and economic bodies, must ensure the following by 1995:

- create in each union and autonomous republic, kray, and oblast the necessary capacities for timely acceptance and processing of all products of livestock breeding. Give special attention to building small- and medium-capacity enterprises directly in the areas where the livestock and poultry are raised. Put into the trade network only meat that is cut up and packaged. Expand substantially the capacities for producing sour-milk products, cottage cheese, cheese, and other products enjoying increased demand by the population, and also create at dairy plants located in the cities specialized shops for producing baby food dairy products;
- put into operation in the food industry of all regions of the country capacities making it possible to satisfy completely the population's demand for high-quality confectionery and margarine products, mayonnaise, and non-alcoholic beverages;
- increase in each region capacities of the canning industry to satisfy fully the population's demand for canned fruit and vegetables;
- accomplish technical re-equipment of existing and create new production facilities in the baking and cereal industry, expand the assortment of baked goods, sharply increase their quality, and supply the population with various types of macaroni, biscuits, and cereals;

—build in each union and autonomous republic, kray, and oblast shops for processing fish into finished and semifinished products;

—radically improve the production base of consumer cooperative organizations.

In order to satisfy the processing sectors demand for equipment, the task has been set to increase its output and delivery from 2.1 billion rubles in 1987 to 4 billion rubles in 1990, and to 7.5 billion rubles in 1995. On the whole, between 1988 and 1995, equipment will be delivered amounting to about 37 billion rubles, considerably more than in the 40 previous years. In addition, we must put in production new-generation highly efficient equipment, mainly systems of machinery throughout the entire complex of storing, transporting, and processing agricultural products. We must make wide use of automation, robotics, and microprocessor and computer technology.

The processing sectors of industry require about 8,000 types of production equipment, and half of them must be created anew (today, only about 2,000 types are being manufactured). To accomplish this task, enterprises and organizations from all sectors of the national economy are involved, above all from the ministry of the machine building complex, the defense industry sectors, and the country's agroindustrial complex. Fundamental resolution of the problem of storing and processing will make it possible to reduce losses, expand processing of agricultural products, and obtain an additional amount of raw material, in 8 years amounting to nearly 40 billion rubles of various products.

Three years of the current 5-year plan have passed. How is the program of capital construction in sectors of the processing industry being carried out? Between 1986 and 1988, capital investments for developing sectors of the processing industry increased by 25.5 percent compared with 1981-1983. However, the limits of capital investments in the food industry were only 88 percent used, 87 percent in the meat and dairy industry, 89 percent in the fish industry, and 87 percent in the milling-cereal and mixed feed industry. Compared with the 5-year plan, funds amounting to 1.76 billion rubles have not been assimilated in the processing sectors of the industry. Goals have not been fully met for putting capacities into operation for production of granulated sugar (65 percent) and powdered skim milk (95 percent); elevator construction (82 percent); and mixed feed (94 percent), cereals (74 percent), and fish processing (66 percent) enterprises.

Construction of processing enterprises usually exceeds the standardized deadlines; targets for technical re-equipment and modernization are not being fulfilled. The ministries and departments of the agroindustrial complex are not ensuring that planning estimates are drawn up in a timely manner. Contract organizations of the Ministry of Construction in the Urals and West

Siberia Regions of the USSR, the Ministry of Construction in the Southern Regions of the USSR, the Ministry of Construction in the Northern and Western Regions of the USSR, the Ministry of Construction of the Ukrainian SSR, and other ministries of the construction complex are reducing the volume of work at projects of the processing sectors of the industry instead of increasing it. The ministries of the defense and machine building complexes are not fully providing building sites of the processing sectors with the necessary equipment.

As a result, much of the commissioning of capacities of the processing industry, prescribed by the 5-year plan, is being moved to the last years of the 5-year plan. To ensure fulfillment of the 5-year plan in 1990, it will be necessary to commission 73 percent of the capacities for producing vegetable oil, 54 percent for processing sugar beets, 55 percent for producing refrigerators, 40 percent for producing elevators, 76 percent of the cereals enterprises, and almost all of the capacities for producing potato products and flash-frozen fruit and vegetable products.

An integral part of the program for developing the processing industry is social and cultural construction for the workers of these sectors' enterprises. However, in many union and autonomous republics, krays, and oblasts, planned non-production projects have not been put into operation.

Improving capital construction in the processing sectors of industry is a pivotal issue and can be resolved by ensuring all projects are put into operation by their deadlines.

#### Footnote

1. PRAVDA, 14 October 1988.

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#### Reasons for Losses in Processing, Storing Agricultural Produce

##### Recommendations for Improving Produce Situation

18240093 ARGUMENTY I FAKTY in Russian  
No 47, 19-25 Nov 88 p 4

[Editorial: Why Are the Losses so Great?"]

[Text] To the end of the 13th Five-Year Plan, 77 billion rubles have been allocated for processing and storage of agricultural produce.

Everyone knows that our losses in fruits and vegetables are great and that only half of the crop grown reaches the consumer's table. But how do we get out of this odious situation? How can we prevent the ruin of vitamin-rich produce? You see, the population of our country, with its

enormous capabilities, consumes fewer fruits and vegetables than many other northern countries like, say, Scandinavia and Canada. In short, delicate fruit has proved to be a strong nut for us.

On what does the preservation of crops depend? On the harvesting methods, which must be sparing and not hurt the fruit; on roads; on facilities; and also on the personal conscientiousness of many of us with respect to agricultural production.

Considering the above circumstances, which cannot be changed in one season (and that means our vegetable cemeteries will not be turned into vegetable storage facilities in 1 month), it would be advisable to switch from industrial forms of storage (they are not working out for us) to combined forms. As urgent measures, we must switch storage facilities fully to cost-accounting, lease them, and enlist the help of cooperatives in this matter. Here all resources would be useful, if only not to waste the labor of the peasants and not impoverish the already scanty table of the city folks. The experience of our grandfathers would also be useful here; without further ado, they preserved their winter food in the cellar, in hay, in sand, and wetted in barrels. And they sometimes even lasted until the new crop. But today, this crop is less than last year. That means we must harvest and store it even more cautiously and carefully.

It is important to provide the populace with everything necessary for home storage of fruit and vegetables. Not only jars, lids, refrigerating and drying chambers, but also cellars in apartment houses in urban areas (they could be used as individual storage facilities)—all this must be provided to the populace. Not to mention the produce which for some absurd reason ended up not harvested from the fields. It should be given to those who want it. The plowing under of vegetables as well as slowness in the procurement and purchase of them are immoral.

We must also make more extensive use of the method of deep freezing and drying of fruits and vegetables, make more domestic vegetable mixtures and spicy additives, and make wider use of waste-free technology. These inexpensive methods of preservation are well within the powers (as long as the crop is not lost) of specialized collectives. Direct delivery of vegetables from the farms to the stores also yields high results.

In the future, the vegetable problem must also be resolved through construction of greenhouses in each residential district for supplying nearby stores with vegetables and, in addition, construction of processing shops directly on the kolkhozes and sovkhozes.

The government has allocated additional funds for development of the processing industry, and it is important to use these funds wisely and sensibly so they do not go to sand and so we do not find ourselves no better off than when we started.

### Goskomstat Statistics on Produce Storage Problems

18240093 Moscow SOVETSKAYA TORGOVLYA  
in Russian 3 Jan 89 p 1

[Materials from State Committee for Statistics [Goskomstat]: "The Problem in the Mirror of Statistics"]

[Text] Almost half of the farms of the RSFSR got less than 50 centners of vegetables and 42 centners of potatoes per hectare, while the leading agricultural enterprises get more than 350 centners of potatoes and vegetables.

Losses of agricultural products remain high. In 1987, they were 5.2 billion rubles in the RSFSR agroindustrial complex in the stages of production, procurement, transportation, processing, storage and sale; the losses increased by 23.3 percent compared with 1986, and 89 percent of them were in the material production sphere. There are considerable losses of products in trade during their storage and sale. Their total losses were 751 million rubles, including 145 million rubles in losses of potatoes, 397 million in vegetables and melons, and 167 million in fruit and citrus. Losses during transportation alone were about 156 million rubles.

The economy of the agroindustrial complex suffers considerable losses from shortages, theft, and spoilage of commodity stocks and other values attributed to guilty individuals.

Stoppages continue in potato trade in the summer and early fall periods in connection with the insufficient production of early- and mid-early varieties of potatoes, which take up only about one-fifth of the potato planting area.

As a result of the disproportion in investment policy, processing of products has turned out to be one of the weak links in the agroindustrial complex. The technical level of the food sectors of the industry largely does not correspond to modern requirements because a considerable portion of the equipment in the processing sectors was installed 20, 30, or more years ago.

Annually, substandard products, rejects, and waste account for approximately one-tenth of the total volume of potatoes and vegetables delivered to storage facilities of trade organizations. As a result, roughly one-fifth of the potatoes and vegetables not meeting the GOST [All-Union State Standard] are stored together with those that do.

Direct delivery of fruits and vegetables "from the field to the store" is progressive and effective, from the standpoint of reducing losses. However, this form is still not very widespread: in 9 months of 1988, 305,000 tons of potatoes, or 10 percent of the total volume, and 746,000 tons of vegetables, or 21 percent, were delivered to trade organizations, bypassing bases and warehouses.

The path from production to the consumer is being reduced and, accordingly, vegetable losses are being reduced by kolkhozes and sovkhoses selling these products to consumer cooperatives at the rate of 30 percent of the planned volume of purchases. However, in 1988, although these sale volumes increased compared with 1987—1.7-fold for potatoes and by 16 percent for vegetables—their percentage in the overall volume of purchases remains insignificant (1.2-3 percent).

There is a critical problem associated with an elevated nitrate content in vegetables, melons, and potatoes. The Ministry of Health has no specific stand on this matter and has repeatedly revised the maximum safe concentrations of nitrates in products. Our norms for their content in individual types of produce are 1.5-2.5 times higher than in other countries of the world.

Quality control of products being delivered for sale is made difficult due to the low level of instrument support: there are practically no instruments for field testing; procedures for conducting analysis are inadequate; and qualification of specialists is insufficient.

The problem of agricultural product quality is getting significantly worse because of their unsatisfactory storage conditions. In trade alone, as of the beginning of 1988 the capacity of vegetable and potato storage facilities was approximately 1.3 million tons (11 percent) less than needed.

Due to the shortage of capacities, trade organizations are forced to violate load norms of vegetable, potato, and fruit storage facilities and use temporary converted facilities for storing produce, which results in large produce losses. In trade, as a result of losses (written off on formal documents and released for cattle feed) in 1987, about 1.8 million tons of potatoes, fruits, and vegetables did not reach the consumer (13 percent of their sales volume). In trade, the losses of these products, recalculated at state retail prices, are 500-600 million rubles annually. In 1987, according to estimates, approximately 40,000 freight cars were used to transport produce that in the end did not reach the consumer.

In state trade organizations, 86 percent of the capacities for storing potatoes and 64 percent of those for storing vegetables do not have cooling; 48 percent of the potato storage facilities and 77 percent of the vegetable storage facilities have active ventilation.

#### **Finance, Price Department Chief on Produce Losses**

18240093 Moscow *EKONOMICHESKAYA GAZETA*  
in Russian No 40, Oct 88 p 10

[Article by Yu. Maslak, chief of the Department of Finance and Prices of the Kiev Fruit and Vegetable Industry Administration: "From the Field to the Dump?"]

[Text] According to USSR Goskomstat data, losses of potatoes, fruits and vegetables, including those released for livestock feed, recalculated at retail prices, are 790-800

million rubles annually. Losses of potatoes and vegetables in 1987 exceeded the annual demand for them in Moscow and Leningrad together.

We keep repeating the same figures: Eliminating losses of agricultural raw materials would make it possible to increase consumption resources by 20-30 percent and save considerable funds. Turning to the data cited above, you automatically look for the real cause of the losses that exceeded the volume of resource consumption of two of our largest cities.

Working in the Kiev Fruit and Vegetable Industry Administration, I am constantly involved with problems of shipping and storing potatoes, fruits, and vegetables, planning production and financial indicators, and establishing retail prices. I will try to disclose the main causes for this situation. Let us begin with the facts.

Annually, enterprises of the administration deliver to Kiev 140,000 tons of potatoes, 300,000 tons of fresh vegetables, and a total of more than 600,000 tons of various fruit and vegetable produce. At the same time, on the average, the population of the capital of the republic consumes only 70-75 percent of this amount. Why? It is because 18-20 percent of the total produce delivered, and up to 40 percent in individual batches, is substandard.

It is virtually impossible for the trade organizations to sort over the thousands of tons of potatoes, vegetables, and fruits during the mass shipments. As a result, poor-quality produce is put up in storage. In doing so, the quality of "normal" produce also decreases, regardless of how optimal the storage conditions may be, which adversely affects the results of the trade organizations' activities. Disputes arise between the workers of trade and various control agencies, which again determine the quality of the produce after shipment, storage, and payment.

It is easier to perform quality control at fruit and vegetable bases. Here, without rushing, they can sort over the produce according to GOST criteria; perform analysis for the presence of nitrates, nitrites, and pesticides; and compile an official document with recommendations. What is surprising in this process is the absence of the producer himself. He is already forgotten. But the produce grown by him remains, and no specialized storage facilities can help preserve it with a 100-percent yield. Last year alone, enterprises of the administration suffered irreplaceable losses amounting to more than 8 million rubles from the shipment, payment, and storage of substandard potatoes and vegetables.

To date, no directive documents provide for compensation of these losses. Here it should be taken into account that norms have not been established for trade organizations for losses from a reduction in quality under normal storage conditions, and the presence of nitrates

and nitrites in produce does not at all help to preserve the tubers and vegetables and entails additional losses.

The quality and grade of all produce are determined by existing All-Union State Standards (GOST). It is their imperfection that affects the accounting procedure and leads to an increase in losses, which is especially clearly observed during receipt, payment and sale of potatoes. GOST 7176-85, "Fresh Food Potatoes Procured and Delivered," calls for tolerances according to three positions: early, late, and high-priced. At the same time, GOST 26545-85, "Fresh Food Potatoes Sold in the Retail Trade Network," subdivides potatoes into five varieties.

Tolerances for quality of potatoes being procured are the opposite of tolerances for those being sold, except for ordinary potatoes. During purchasing, GOST 7176-85, for example, allows no more than 2 percent pest damage, while GOST 26545-85 prohibits their sale in the retail network at prices for high-price or select potatoes.

The existing payment procedure for substandard potatoes that has been established by the republic State Agroindustrial Committee and the State Price Committee exacerbates the situation even more. According to their direction, substandard potatoes received from farms are paid for at a discount of 28 percent from the purchase price for standard potatoes, that is, in the amount of 88 rubles 60 kopecks [per ton].

At the same time, it has been established that the retail price for substandard potatoes must not exceed 50 percent of the price for standard potatoes, that is, 45 rubles per ton. Thus, shipment of substandard potatoes is made at prices that do not exceed the retail prices for substandard produce in effect at the moment of sale. Consequently, this procedure leads to direct losses in the amount of 43 rubles 60 kopecks per ton, not counting storage costs.

What follows from all this? The fact that farms, by delivering substandard produce, only create the appearance of being successful in fulfilling the purchase plan. You see, the low-quality produce received from them is later sometimes hauled to the dump, and in the best case is returned to the farms for livestock feed. But why can we not change this wanton practice? After all, eliminating reloading would make it possible to truly assess the activities of both the farm and the trade enterprise.

Changing the situation that has developed alone would enable our fruit combines to rid themselves of storing produce in pits and to direct capital investments not only to the construction of storage facilities, but also to the acquisition and modernization of equipment. This would help reduce manual labor at bases and make it possible to quit drawing in manpower from the side. It is necessary to determine who is responsible for the low quality of potatoes, fruits, and vegetables being sold to

the populace and for their losses—the trade organizations or the farms growing the produce.

We should prohibit farm-suppliers from shipping and trade-procurement organizations from paying for substandard produce. We must bring in line existing GOST's on produce being procured and sold. When the produce is shipped to trade organizations, we must involve all control bodies specializing in this field in checking the quality (at the place of growing and shipment). We should create a commission (patterned after state acceptance) for the period of shipment and storage; it would accomplish strict quality control.

It is advisable to authorize sovkhozes and kolkhozes to sell all substandard produce grown on the farm to their workers.

Further, in my opinion, we should transfer the existing storage facilities, with the material, labor, and financial resources, to the appropriate agroindustrial associations, and for receiving produce under interrepublic and union deliveries, leave a sufficient amount of capacities at the disposal of trade organizations for storing the produce. Material incentives for workers of agroindustrial associations and farms should be given at the end of the season, taking into account the actual yield of produce, that is, according to the end result.

In short, it is time to put this entire matter in order. Otherwise, the figures on losses cited at the beginning of the article will grow.

#### Administration Chief on Improving Produce Quality

18240093 Moscow *EKONOMICHESKAYA GAZETA*  
in Russian No 5, Jan 89 p 8

[Article by I. Mashkovich, deputy administration chief of the USSR State Committee for Standards [Gosstandart]: "Assess by Grades"]

[Text] The article "From the Field to the Dump?" (No 40, 1988) touched upon questions of reducing losses of food products, including potatoes, in the wholesale-retail trade network. We fully support the author's conclusion that one of the main causes of the poor preservation of these products is their delivery to the cities by kolkhozes, sovkhozes, and procurement organizations with violations of standard requirements. The farms do not perform proper post-harvest processing of the produce and often ship it, almost half dirt. Vegetables and potatoes are accepted not by individual batches, taking into account their quality, but by the percentage of good-quality and substandard.

However, the author's proposal to prohibit farms from shipping substandard produce would hardly change the situation, since this ban has been in effect for many years, but the delivery of substandard produce continues.

We believe that there can be only one solution here: Switch to grading a batch of vegetable produce and potatoes as a whole and to introducing commodity grades. This would immediately place everything on an economic footing and force them to engage in grading and packaging produce.

However, the former USSR Ministry of Agriculture, now the Department for Production and Processing of Plant Products of the USSR State Agroindustrial Committee, is categorically opposed to introducing commodity grades into standards for procured vegetables and potatoes, because of the lack of conditions for commodity processing of produce at kolkhozes and sovkhoses.

We fully agree with the author that the existing practice of delivery of substandard produce to the wholesale-retail network by farms merely creates the appearance of success in fulfilling the purchase plan, since in the end it leads to a reduction in produce quality, ruin, and the hauling of produce to the dump or for livestock feed. We must change the situation, but many economic managers, for whom fulfillment of the plan quota by "gross" is most important, do not understand this.

Of course, neglect in commodity processing of produce in agricultural production makes it more difficult to carry out the task of establishing requirements for commodity grades of vegetables and potatoes being purchased. This is a matter of the near future. For the time being, it is envisioned that the quality of potatoes and a number of vegetables (white cabbage, carrots, beets, onions) being sold in the retail trade network will be raised by establishing requirements for commodity grades in GOST's for the product being sold. What does this mean?

At wholesale-retail enterprises, it is now mandatory that they grade and bring the quality of batches of potatoes and vegetables to meet the requirements of the standards and package them, since the standard produce must be delivered to the stores.

Equipment for commodity processing of this produce is also concentrated at these enterprises. The increased

price for the produce as a reflection of better quality creates a material concern of wholesale-retail enterprises in performing this work.

Kolkhozes and sovkhoses that have special equipment can deliver such produce. And it should be delivered directly to the stores, bypassing the wholesale-retail enterprises.

I cannot agree with the author's opinion that the GOST requirements for produce being purchased and sold are not linked and that the "tolerances for quality of potatoes being procured are the opposite of tolerances for those being sold, except for ordinary potatoes." These tolerances are not opposite; on the contrary, they are made tougher.

The GOST's for potatoes also identify requirements for tubers of high-priced grades, distinguished by high taste qualities and sold at increased prices. We must continually work to improve the standards for fruit and vegetable produce and potatoes must.

It is incorrect that the GOST's do not yet contain commodity grades for tomatoes, cucumbers, cauliflower, eggplant, and other vegetables that must be delivered to stores, as a rule, without additional grading at wholesale-retail enterprises. Differentiated requirements on quality by commodity grades must be established both for those being procured and those being sold.

Finally, economic bases must be created that ensure an increase in quality of vegetable produce and potatoes. We should use the experience of international standardization in this work—European standards and CEMA standards—and the experience of other countries where differentiation of quality requirements by commodity grades is mandatory.

The USSR Agroindustrial Committee and its institutions that draw up the draft GOST's must in the near future draw up new draft standards aimed at raising the quality and preservation of vegetables and potatoes and at creating an economic mechanism for carrying out this very important task.

### Need For Trade Union Reforms Defined

18280079 Moscow TRUD in Russian 7 Mar 89 p 2

[Article by M. Glazyrin, candidate of economic sciences: "Trade Unions: The Search for Solutions"] [txt]  
form of the Soviet trade unions is being discussed. In my opinion, this document is more brilliant and definitive than it has been in the past. It shows the true colors of the largest mass public organization, its deeply democratic nature, its orientation toward the daily needs of working people, and its defense of their interests and rights. This is very important. You see, the trade unions have not avoided the deformities that we have permitted in the development of socialism.

The discussion of the problems, which have matured in trade union restructuring, has recently become noticeably more intense in trade union organizations, the press and AUCCTU plenums. Well known practical steps have been taken. This, however, is only the beginning. I would like to express a number of considerations—perhaps repeating myself in some things.

Guided by the Leninist proposition on socialism's political system, one can conclude that workers need strong trade unions even under this system. You see, the level of production development and of the consumption area still does not assure the complete and equal satisfaction of the people's needs for work and the good things of life under socialism. That is why there is a need for public control and for the development of self-mangement.

The labor collective councils have been called upon to become social and state self-mangement bodies. For the time being, however, only the most advanced part of the workers can carry out self-management. Further on, trade unions will become a public organization involving all workers in management. They are the potential professional and organizational basis for the birth of different public formations (societies, unions, associations, etc.) and for the establishment of a distinctive type of common national front—for the consistent implementation of the policy of restructuring.

During the 18th USSR Trade Union Congress, M. S. Gorbachev said that the new task of trade unions under the conditions of restructuring primarily includes the fact that "they should ... see to the strengthening of the social tenor in the economic decisions being made." That is why it is so important that the election platform of the trade unions defines the satisfaction and defense of the workers' professional, social and political interest and rights as their most important goal. This function in society is essentially social management which, as it still appears, no one is working on in the country in a complex and consistent manner in accordance with state and public policies.

The achievement of this goal assumes that the trade unions themselves will determine the following tasks to be their priority ones: the professional and social

advancement of the workers, the mastery of new management forms by the workers, the formation of worker proprietary qualities, the assurance of distribution according to work, the improvement of working conditions, the protection of peoples' health and the environment, the acceleration of the expansion of the social area, the monitoring of its normal functioning, the strengthening of work discipline and legality, the expansion of proletarian internationalism, the search for effective democratic forms for intra-trade union life. The realization of these tasks will serve to eliminate technocratic feeble efforts, develop the workers in every way possible, increase their activity and, consequently, increase labor productivity.

Naturally, these general propositions will be given concrete expression in various trade unions and primary organizations. Under the conditions of the transformations that are occurring in the country, it is extremely important, generally speaking, to determine not only what must be done but also how it should be done and what methods and organizational structures for realizing more effectively the social tasks, which stipulate the functions of the trade unions, should be used. During this, it is important to interpret Lenin's ideas that trade unions are called upon to be the organization and an indoctrinational school for management—a management school—in conformity with present conditions. It is necessary to say that the existing Trade Union Regulation allows the merging of tasks and functions and lacks a clearly expressed verification of the social tenor of their activity ....

In our view, what do today's basic trade union functions consist of? Without, of course, claiming it is self-evident, I would like to point out that the trade unions have primarily been called upon to influence the formation of effective economic relationships, struggle for the establishment of normal working conditions, develop a consumption sphere worthy of a Soviet individual, and see the social goals of production in the forefront. Trade unions should be involved in all of this without replacing the responsibilities of the paid workers in the powerful state and economic apparatus.

While taking a great interest in joint and even independent measures of a production, technical and economic nature, the trade unions often let "their own" questions slip during this.

For example, competition is a component of the economic mechanism, and consequently, it is primarily the work of economic directors. However, they have shifted all of the concern for organizing competition to the trade union committees and councils keeping for themselves the right to individually dispose of the incentive fund and expending it outside the framework of the competition. It is worthwhile to point out that the election platform of the trade unions contains a statement in the spirit of the old general slogans: "The trade unions will

strengthen their concern... for expanding socialist competition in every way possible...."

Of course, the trade unions cannot, generally speaking, keep aloof from competition, but they could, it seems, concentrate on publicizing its goals and incentives, exercise control over the establishment of different conditions for its participants, and provide a public appraisal during the summing up of its results. Or another question: Is the participation of trade unions necessary in the development and implementation of scientific production programs? Would it not be better for the trade unions to engage more actively in monitoring working conditions, examining projects (including from the viewpoint of protecting the ecology), supporting the workers' professional creativity, justifying norms, and searching for reserves in constructing the social infrastructure. Or, worker control over the distribution of goods and creature comforts is now being actively expanded upon the initiative of the trade unions. It is clear that the trade unions will have to involve ever newer groups of workers in this work.

The establishment of social justice in distributing creature comforts and in expanding and realizing the professional capabilities of the workers—this is the definitive way to satisfy and defend their interests and rights. An improvement in working conditions, the assurance of job guarantees, the timely retraining of freed workers, etc., are also required. Trade union members rely on the highly-principled position of trade union committees in their relations with the administration, especially during the beginnings of social conflicts that are appearing in different, including extremely negative, forms. The development of democracy and glasnost and the firm position of the workers are establishing conditions for such adherence to principle.

A special place in the protective actions of trade unions belongs to their struggle to insure a rise in the workers' standard of living. During the transition to the new management conditions and the establishment of cooperatives, negative trends (growth in high prices, "washing away" of the less expensive variety of goods, inflation) are also becoming visible. The trade unions require real and more substantial rights to impact on these processes and participate in the distribution of national income and the incomes of enterprises.

All of this is possible only with a full and equal partnership between the trade unions and planning bodies. The 18th USSR Trade Union Congress delegates and AUCCTU members have repeatedly expressed the thought that it is necessary to consider a state plan (at all levels) as being accepted only if the appropriate trade union body has given its consent. Relationships on all the main questions of social policy should be constructed precisely this way with the USSR State Committee for Labor and Social Problems, Ministry of Finance, State

Committee for Prices, State Committee for Science and Technology, Gosstroy, State Committee for Protection of Nature, and others.

The legal protection function of trade unions, including the right to "veto" socially unsound decisions, should be strengthened with normative acts characteristic of a legal state. That is why, without postponing the preparation of the USSR Law on the Rights of Trade Unions, it would be logical to first carefully formulate their tasks and functions so that they would not "participate" in everything but would have a more concrete place in society—their own face. It is also very important to strengthen the law with a mechanism for realizing the rights which will be introduced in it and to insure the defense of the trade union workers themselves. Otherwise, the rights, which have been fixed in the law, can remain something like a "safeguard."

On the other hand, it is important for the trade unions themselves to raise the level of their social, economic, management, and legal competency significantly. It is advisable to establish integrated groups, laboratories and research centers on social policy problems and to enlist highly qualified specialists and scientists in the work of these subdivisions. The development of social forecasts and suggestions to raise the workers' standard of living under the conditions of scientific and technical progress and the fuller study of the needs and interests of the different social and professional groups, youth, women, etc., is just as important. Who, except the trade unions, does this consistently with a consideration for the workers' opinions?

The self-management and highly productive work of collectives cannot be based on and maintained only using economic incentives and orders. Trade union organizations (unjustifiably citing the peculiarities of a cost accounting economy) often belittle the significance of instilling conscientious discipline, creative initiative, collectivism, and professional and human dignity in workers. Most frequently, they do not engage in this work seriously. Here, we have an alarming gap.

Directly working with people, supporting them in fulfilling their personal plans and organizing creative leisure must occupy the major portion of the trade unions' time. There is a reserve for this—the giving up of unusual functions, unnecessary meetings and bureaucratic documents that literally "eat up" time (for these purposes, one can rely by the way on the results of an experiment in 50 trade union committees in Donetsk Oblast where they managed successfully with three journals instead of the previous 40 document folders).

I would like to see the organizational mechanism of the trade unions and the forms for coordinating their structural elements within them and with the state to be more dependable and democratically efficient. It seems advisable to define the mutual relationships between labor collective councils and the economic and trade union

bodies legally. Otherwise, their existing status can also lead to mass conflicts and to a depreciation of the workers' faith in the new self-management bodies in enterprises.

It is quite natural that along with the economic and political reforms, the change in the structure of the agencies managing the national economy and the formation of branch and interbranch associations, the USSR Council of Ministers Buro should also change the structure of the trade unions. A reduction in the staff of trade union bodies has already been carried out and experiments, which are connected with reorganizing their structure, are taking place in Kalinin and Kuybyshev oblasts and Krasnodar and Stavropol krais. However, one can also deepen it by establishing large trade union associations and federations with the simultaneous formation of narrower professional formations, associations, etc., within them.

In order to achieve the national economy's social reorientation more quickly, a significant review of the methods of party leadership of the trade unions is required in my view. The viability of the trade unions as one of the key links in the political system depends on the granting of sufficient rights and independence to them. This will raise their responsibility and will permit them to become stronger, more active and more authoritative in restructuring. The reliance of the party and soviets on trade unions will strengthen the ties of the vanguard with the masses and will improve the effectiveness of public influence on accelerating the country's social and economic development.

#### **Latvian Official Interviewed on Trade Union Rights**

18280072a Riga SOVETSKAYA LATVIYA in Russian  
22 Jan 89 pp 1-2

[Interview by Sergey Lyalyushkin, correspondent of LATINFORM, with A.K. Zitmanis, chairman of the Latvian Republic Council of Trade Unions: "Trade Unions—A Program for Renovation?"]

[Text] If each one of us is asked the question: Do you know the name of the chairman or, let us say, the trusted doctor of your own branch republic trade union committee, I believe that in the overwhelming majority of cases the response would be negative. I am sure you will agree that to a certain extent this improvised test underscores the role that we ascribe to our present trade unions, with regard to the society in which we live. And this is despite the fact that the overwhelming majority of the republic's able-bodied population are trade union members. Here we have a paradox: for example, distinct from membership in a temperance society or in the former society for water rescue operations, we join trade unions on a truly voluntary and willing basis and even participate in their work. At the same time, we possess an extremely vague notion as to their functions. What is the problem?

Prior to sitting down to compose this article and in the interest of learning more about the problem, I held a special discussion with approximately two dozen of my colleagues and friends (all of them members of this largest social organization in the country) and I asked all of them the same question: In your opinion, just what is a trade union? And what happened? Here then is the summary opinion expressed by some of my more experienced respondents: on the one hand, a trade union is a department with a rather vague structure that distributes passes and, on the other, it is a type of all-union treasury for receiving the funds of state social insurance and thereafter distributing them among the addressees.

Obviously, by no means do I pretend to attach a scientific validity to the conclusions drawn on the basis of this "homespun" interrogation. But are these conclusions truly symptomatic? Yes, we truly join trade unions voluntarily. Why? Because it is obvious that even these mentioned but by no means named functions ensure social protection for us to a considerable degree, protection which is realistic if not always complete. For example, in the event of illness, production injuries and so forth. Moreover, this is not the only concern. I recall how at one time the trade unions came into being as an organization of workers who were struggling to gain the right from their employers to live and work in a manner befitting an intelligent individual—worthily and with honor. But is everything really proceeding properly for us in this regard? And if not, does this not signify that today the trade unions, with perestroika of the political system proceeding at full speed throughout the country, must look to their roots? Recall if you will our glorious past when their authority and personality were determined not by the will or strength of the apparatus but rather by the creative energy of the masses.

As a participant in this social organization, I will not conceal the fact that I have devoted a great amount of attention to what has been taking place recently in the trade unions of Latvia, an event in the life of which was the recent plenum of the LRSPS [Latvian Republic Council of Trade Unions]. I believe the readers, among whom in all probability there are many who, one way or another, are also participating in trade union work in the various areas, would be interested in opening the curtain slightly and seeing: how life is going forward today in those areas where a policy is being defined for renovating the life of the republic's trade unions. Thus, what new developments can we expect from the trade unions in the immediate future, developments which will be in keeping with the spirit of perestroika? Which aspects of their work will henceforth be considered of paramount importance and which functions will sink into oblivion as no longer being appropriate. A correspondent of LATINFORM, Sergey Lyalyushkin asked the chairman of the Latvian Republic Council of Trade Unions, A.K. Zitmanis, to provide answers for these and other questions

[Lyalyushkin] Avgust Karlovich, the participants in the LRSPS plenum discussed ardently and with great interest the draft concept proposed for their review on the

principal trends in the work of the republic's trade unions. Many critical comments aimed at the trade unions were expressed in their speeches and also in our report to the plenum. Many constructive recommendations were introduced. A number of them were clearly unusual and, I would venture to say, revolutionary in nature. The impression has been created that during the preparations for and conduct of the plenum an attempt was made to radically reinterpret the very essence of trade union operations. Is this true?

[Zitmanis] This was our reaction to the rapid development of events throughout the country. The decisions handed down during the 19th All-Union CPSU Conference, which launched the election campaign for USSR people's deputies and which has not had a counterpart throughout the entire existence of Soviet rule, force us not only to participate more persistently in the political and economic struggle against obsolete developments but, following an examination of the entire program of practical actions, to formulate a new role for the trade unions in our society. Here is how we attempted to reflect it in our concept of the work of trade unions, as submitted for review by the participants in the plenum. It bears mentioning that all of the positive developments provided to us in the form of recommendations by the branch trade unions were taken into account in it and summarized. We did not overlook the experience accumulated by the trade unions of other union republics.

The essence of our new approach (moreover, if history is recalled, then it is obviously appropriate to mention here: derived from old and long forgotten events) lies in the fact that the chief and perhaps even the only vitally important sphere of activity for trade unions must henceforth be their defense of the interests of workers. How can we realize this?

First of all, we intend to establish true (in action and not just in words) equality and an independent partnership with the Soviet state economic organs and social organizations. In particular, we consider our task to be that of granting the trade unions the right to veto any governmental or departmental decisions which infringe upon the interests of groups of workers, regardless of the branches to which they are attached or the regions in which they live. Moreover, the center of our political renovation includes a decisive review of the rigid staff structure and a conversion over to more flexible, compact and democratic forms for interrelationships, both within the primary organizations and in the contacts between them and the higher elective trade union organs.

[Lyalyushkin] Exactly how do you intend to achieve these goals?

[Zitmanis] Well, for example, it will be accomplished through people's deputies elected to the highest legislative organ of the country and republic based upon a trade union list. I believe that they will be confronted by difficult work in carrying out the ideas reflected in our

concept. First of all, I have in mind the need for a social reorientation of the national economy, which long ago should have focused attention on the needs and aspirations of man, on humanization of the productive sphere, on normalization of the ecological situation, on working conditions, daily routine and the leisure activities of people and, finally, on the development of a mass and truly national sport.

We consider another and equally important trend in our work to be our direct and active participation in legislative-creative work. In our opinion, a need already exists for having our specialists participate in the development of a model for republic cost accounting and also such projects as a law governing the rights of trade unions, vacation time, pensions, the principles of labor and housing legislation, all of which, it bears mentioning, are hopelessly outmoded today. Obviously, in the process we will be forced to rely upon the opinion and support of a majority of the trade union members. I believe that it is fully proper to seek out the opinions of the trade unions when creating legal documents which control the observance of social fairness in the distribution of certain benefits and when examining the tax policies. The time is obviously at hand for radically changing the state social insurance system mentioned by you in the preamble. In the administration of this system, the trade unions are playing an extremely unenviable role as a semi-state controller responsible for the collection and distribution of funds. Here I believe it would be more reasonable to concentrate all control within the framework of such an organ, one which would have its own banking system, social assistance service and its own program, for example, for strengthening families and developing medical assistance and have reserve funds at its disposal for the formation of insurance funds. For example, for rendering material assistance to workers attached to enterprises, departments and sectors that have been closed down by the trade unions owing to the fact that the conditions at these facilities are not in keeping with the norms for safe working conditions. I believe that the time is at hand for us to devote some thought to such a fund, one which would guarantee payments to those who are forced to defend their rights by participating in a strike which, it goes without saying, is conducted within the framework of the law. It is our understanding that such a law is being developed today.

[Lyalyushkin] And what can you say concerning the creation of a fund for so-called structural unemployment that would guarantee social protection for those who, as a result of raised labor productivity at a particular enterprise, are fired from their jobs and forced, for a certain period of time, to spend money in order to learn the rudiments of a new specialty? Do you not agree that the number of such people will increase with each passing year throughout the country and, it follows, in the republic?

[Zitmanis] Beyond any doubt, such a fund is needed and we will strive to ensure its creation. As you can see, a

very broad field of activity is opening up for us. Within the framework of the concept, importance is attached only to defining correctly the operational priorities, planning the schedules and selecting the groups of experts.

As never before, the effectiveness of their work will depend upon how successfully we are able to implement the new progressive forms for organizing work. Therefore, when commencing a discussion on the restructuring of our administrative structure, I would like to emphasize the following: the time is at hand for the LRSPS and the republic committees, without postponing the work, to sit down at the negotiating table and outline a type of demarcation line which would differentiate the functions of both sides. In this manner it would exclude once and forever from our practice duplication and excessive regulation and other atavisms of wilful administration. Instead we will introduce contractual principles into our work that we will be able to implement even within the framework of our present Trade Union Regulations.

Today we are commencing a maximum simplification of the structure of trade unions at all administrative levels of their operations and the transformation at times of absolutely feeble elective organs into councils of chairmen. This obviously does not apply to the primary organizations. We intend to reorganize radically the LRSPS apparatus in order to ensure that it serves the members of trade unions and not the reverse as is presently the case. And if such a renovated apparatus begins to operate effectively, we need scarcely be afraid of the recommendations put forward during the plenum on converting the interrelationships between trade union organizations over to an economic and particularly a contractual basis.

For the carrying out of various types of sociological and other studies, we will enlist the aid mainly of temporary creative groups and also those paid on a contractual basis using trade union funds, rather than regular workers. Thus, an information-methodological center for studying social opinion will be created attached to the LRSPS which, in particular, will study the reasons for the popularity or lack of popularity of the steps being undertaken by the trade unions.

[Lyalyushkin] In many developed countries throughout the world, a collective agreement between a trade union and employers is the basic tool in a campaign by workers to achieve their rights. Thus, a mechanism has been introduced in the collective agreements in the United States of America in accordance with which the wages for trade union members, in the absence of any additional negotiations with the firm leaders, automatically increases as increases take place in the average prices for goods which are in high demand. What can you say in this regard?

[Zitmanis] I would venture to quote a paragraph from the draft concept in this regard:

"The trade unions favor an annual review of the annual income of the population, one which takes into account inflation, the carrying out of an objective evaluation of a change in the price index and the development of an appropriate mechanism for coordinating wages and other monetary payments to the population with this index."

Permit me to add several words in this regard concerning the role played by a collective agreement. In essence, this document must be the chief one for us and, if you please, the only law for each labor collective. Aware of the full importance of this, we recently devoted a considerable amount of attention to improving our collective-contractual practice. For example, we simplified the form for a contract and the system for summarizing the results obtained in carrying it out. But here is the question: are we able to finally reduce to zero the dense formalism which prevails here? Honestly speaking, not quite. Then what is the problem?

Obviously, the problem lies in the fact that a contract, similar to a mirror, must reflect not only those problems which alarm a collective today and it must contain efficient variants for solving them and also specific schedules and executive agents. Moreover, the degree of responsibility involved for a disruption in the measures planned must necessarily be stipulated here, whether caused by a subjective or objective factor. In other words, in the future we must achieve a situation in which a collective contract becomes truly the chief regulating factor for interrelationships between an administration and a trade union, a document which clearly formulates the methods for achieving the goals of social and economic development, for solving ecological problems and most importantly, for raising the well-being of workers.

[Lyalyushkin] As far as I know, the draft concept for Latvian trade unions contains a statement emphasizing the need for developing a new system for protecting the health of workers. Could you discuss for the readers its basic principles?

[Zitmanis] Look, we assumed for a long period of time that the more doctors and hospital beds we had in the country, the better would be our health. And what happened? Today Latvia occupies first place in the country, per 10,000 residents, in terms of these indicators. But I believe that this provides little comfort for those who stand at the end of a long line in a polyclinic or lie in the corridor of a municipal hospital. What is the problem here? It derives from the fact that diseases still do not develop in clinics. Thus importance is attached not so much to how many doctors we have or how roomy or cramped our hospitals are, but rather to how we handle our priorities concerned with the campaign for the collective health of society.

I will try to illustrate this using an example. At the present time, there are twice as many doctors and three times as many beds as there are for example in the

U.S.A., again in a computation for 10,000 members of the population. And here is an interesting fact. In the United States there are five times more certified physical culture and sports specialists than there are in the USSR. Moreover, these individuals are called upon to develop mainly healthy people rather than athletic geniuses. This is borne out by their comparatively humble achievements during the Olympic Games in Calgary and Seoul. It is readily apparent that the well known testament of Pierre De Kuberten "The chief consideration is participating rather than winning" has somehow been imperceptibly removed from our consciousness.

And why? Motivated by the best of intentions to show our health to the world in its best light, we make available the best stadiums and athletic complexes to those who, in pursuit of high results and international achievements, almost perform to the detriment of their own health. Tell me, what type of hothead could possibly state today that the critical mental and physical stresses that are inevitable in athletics are truly useful for health? Simple and mortal, that is, the principal mass of the population, less a few departmental athletic installations, remains content with the residual principle. It bears mentioning that today the republic's trade unions consider this socio-economic phenomenon to be a direct infringement upon the rights of man by numerous departments, both central and local.

In conclusion, I would like to take this occasion to inform you that before long the draft concept will be published in the press. In this regard, I call upon all trade union members and each profkom [trade union committee] to participate actively in the development of the final variant.

### **Changing Status of Farmer, Labor Migration Discussed**

18280084 Moscow *EKONOMICHESKAYA GAZETA*  
in Russian No 9, Feb 89 p 11

[Article by V. Ostrovskiy, director of the Institute of Socio-Economic Problems of Development of the Agro-Industrial Complex (Saratov): "The Peasant Farmstead"]

[Text] Today when one speaks about the reasons for our problems in agriculture one hears the phrase "loss of peasant heritage." Many see this as the reason for the low labor productivity and the negligent attitude toward the land and technical equipment. And it is not that there are now fewer peasants in the social structure of the population, that the migration from the country to the city continues, or that many peasants have become workers, employees, scholars, physicians, and teachers.

This is not the objective process about which we are speaking here. We are speaking about the essential side of the person employed in agriculture, about the peasant as a farmer.

What has made the peasant a peasant-worker, a master in all respects, a thrifty and careful proprietor? First of all the organic bond with the land which was realized both through heavy labor on it and through the consumption of its fruits. On this basis there grew a profound personal interest and dependency, a thrifty attitude toward one's provider, and a direct connection between one's labor and its fruits. It is not by accident that the Russians have the saying "You reap what you sow." Therefore even heavy labor on the land was a joy, a way of preserving oneself, one's children, and one's family.

One cannot but see the advantages of family cooperation and family division of labor, whose main features are mutual responsibility, mutual assistance, interreplaceability, self-exertion, and concern for each and every participant in the total family labor.

Family agricultural labor has always been inseparable from daily life with its diverse concerns. They have alternated, merged, and augmented one another, creating a unique rural way of life on the peasant farmstead. Traditional good-neighbor relations, work cooperation, and mutual assistance have left a significant mark on the personality of the working peasant. The historically formed spirit of collectivism is still an important condition for the stability of agricultural production.

Finally, another typical feature of peasant labor and life is that they are part of the natural environment. The land near the farmstead and the proximity of the river, forest, and meadows have determined the process of the formation of the rural settlements. The specialization of the peasant farm, its type and size, and economic ties with the larger external world depended on a wise accounting for natural and geographic conditions.

A love of work, thriftiness, a love of the land and animals, a caring and wise attitude toward nature, the sense of working shoulder to shoulder with neighbors and a constant readiness to come to their aid, business-like thrift and circumspection—these best features of the peasant have largely been lost as a result of the consolidation of small villages and khutors into settlements of an urban type, the neglect of "unpromising" towns and villages, and the mass and frequently economically unjustified migration from the country to the city.

The bond between the peasant and the land has been lost, collective property has been depersonalized, and labor has been devalued. It has lost its healthy competitiveness, initiative, land mutual assistance. There has been a flourishing of distorted forms of glaring self-centeredness, theft of public property, social ostracism of active workers, and a flourishing of the "don't give a damn" morality.

Evaluating the past, M. S. Gorbachev correctly noted that as a result of the violation of Leninist principles "there has developed a psychology that says since the

labor of the kolkhozes, sovkhozes, and rural workers is not valued, since it is gathered up cheaply by the state, in the end we shall not take much pride in it either. And this is what happened. This was because the fate of the agrarian sector was a matter of indifference to an immense number of leaders."

Now on the initiative of the party there is a mass restoration of the status of the peasant, the thrifty master of the land.

When responding to the question of what kind of master we want, however, we must not limit ourselves to "hereditary" peasant features alone. This is not enough today. The sense of being a master that is restored by rental must be based on different moral and economic-legal foundations that are inherent in socialist relations. It must be embodied in higher productivity of the fields and livestock, higher profitability, excellent product quality, and those features and moral categories that inhere in the working man. It is impossible to achieve this in the age of the scientific and technical revolution at the old level of the peasant town house. Therefore the modern renter must have a good education and special agronomic training, he must master modern technical equipment, he must be economically literate, and he must keep up with the achievements of science and technology.

In order to reach this level and achieve a real economic effect, there must be real rural universal education and extensive participation of highly qualified agricultural specialists in the contract and rental forms of land use.

This is an extremely significant "detail." For in Canada or Sweden the very right to lease land is dependent on having a special diploma or practical experience.

Cooperation, the contract, and leasing are intended to restore and develop the peasant-master: to make each worker feel in charge of the section of public property he has leased in the form of land and production implements and to open up the way completely for economic independence and enterprisingness. It is necessary to directly link the quality of labor to the amounts of payment, to stimulate peasant thriftiness, and to more extensively utilize the advantages of family organization of labor. On the basis of cooperative ties of contracting and leasing organizations it is necessary to develop collectivism and interaction and on a cooperative basis to restore the kinds of nonagricultural activity that are traditional for rural areas.

The policy of the family contract and leasing raises to its full height the question of the rural family and its demographic and labor possibilities. History has convincingly shown that the peasant family and agriculture cannot exist without one another. Without the peasant the land becomes overgrown with thistle and without the land the peasant family falls apart. In the West this organic unity has been given the name the "family farm"

and in Rus' the "peasant farmstead." Let us recall that the population was counted according to farmsteads, taxes and tributes were levied, and the land was divided up according to mouths to feed and workers.

The "peasant farmstead" or working family farm harmoniously combines natural and social factors and has to do primarily with natural productive forces. Man himself, the land, working and productive livestock, seeds, feeds, and organic fertilizers are the kinds of production elements that nature reproduces herself. This is what gives the peasant farm both a consumer and a producer. The peasant family, wrote K. Marx, "directly produces a large part of what it consumes, thus acquiring its own means of living more in exchange with nature than in relations with society" (Soch. [Works], Vol 8, p 207). This largely explains its stability or, rather, its adaptability to the most diverse social conditions.

Family agricultural labor has always been inseparable from daily life with its diversity of concerns, which have alternated, merged and augmented one another, creating a unique rural way of life. Therefore when adopting a course toward the development of the family contract and especially leasing and the restoration of the "peasant farmstead" under the new social conditions one must take into account the demographic situation in the rural areas. One must say that it is not very favorable.

The aging of the rural areas limits their demographic and labor potential.

One must also take into account a number of warning signs in the demographic behavior of the rural population. They have a negative effect on the rural family, whose role increases immeasurably in the new leasing relations.

In his day A. V. Chayanov established a direct dependency between the development of the working peasant farm and its viability, on the one hand, and on the other, demographic processes, and mainly the composition of the peasant family. According to his theory, the development of the farm along with many external factors is determined by the ratio in the family between the number of mouths to feed and the number of working male members. This determines the size of the initial allotment of land. The number of mouths to feed increases with each new child and the needs that dictate the expansion of the farm grow. With the years the number of workers also increases. This opens up possibilities of further development of the farm and the separation out of it of a new independent farm for the sons. The process begins all over again. Of course this farm has not existed in a vacuum. It has participated in complicated economic and social relations which have left a certain imprint on it, supplementing the demographic differentiation with social differentiation.

If one makes a comparison with the past, the modern rural family has much less in the way of physical and

physiological capabilities. Because of many factors that require a special discussion, historically there has developed an imbalance between male and female population.

In many rural regions there is a critical shortage of marriageable young women, which influences the formation of the rural family. Using the classical literary definition, let us note that the supply at the "bridal fair" is decreasing, the young men go to serve in the army and do not always return, and the girls seek their fortunes in the cities.

According to the data of our selective investigation, in Povolzhye 39.6 percent of the families consist of two people, 26.1—three people, 22.1—four people, and 12.2 percent—five people or more. The average family consists of 3.1 people, and in rural areas almost 66 percent of the families are of this size. Of the women who were questioned, 19.3 percent do not have children, 28.3—one child, 38.3—two children, and 14.1 percent—three and more children. Perhaps the future of the family is revealed more clearly by the number of children. Out of 100 families with children under 18 years of age 47.4 percent had one child, 39.3—two children, and 13.3 percent—three and more children. The rural family does not promise a large increase in the number of workers, especially if one takes into account the tendency of the modern professional orientation: the desire to acquire "urban" occupations.

In order for the rural family to become not only a demographic and social unit, but also a strong economic unit, a buttress for new property relations, it is necessary to have a well-thought-out demographic policy. We need a complex of measures for keeping youth in the rural areas, especially girls, for stimulating the birth rate, and strengthening the material position of young marrieds and families with many children, and, finally, measures for facilitating the labor and protecting the health of women.

Concrete steps in this direction could be the creation of interfarm funds for assistance to large and broken families, the development in rural areas of enterprises and shops of light and the food industry and cottage industries that employ female labor; guaranteed additional payments to parents with the appearance of each new child; the introduction of a system of material aid to young marrieds, and mainly from the funds for the social development of farms. It would be expedient to regulate leasing relations with young families taking into account the number of children and to provide for joint construction of day nurseries, kindergartens, and female consultation points and birthing homes or divisions that can be reached from their homes within 2 hours.

Now as never before we need a cult of the rural family, a cult of mother and child. In spite of the inevitable reduction of employment in rural areas because of technical progress and contract forms of labor organization, the rural population in regions experiencing a shortage of

labor resources should grow. Without this it will be impossible to restore the abandoned fields and villages or to create a rich new production and social infrastructure. The large rural family should become the major motive force for the economic and social self-development of modern rural areas.

**Benefits of Cooperative Movement Evaluated**  
*18280055 Moscow EKONOMICHESKIYE NAUKI*  
*in Russian No 12, Dec 88 pp 24-34*

[Article by Andrey Anatolevich Glushetskiy, candidate of economics, lead scientific associate, Economics Department, Moscow State University: "New Cooperatives: Pluses and Minuses"]

[Text] The important steps taken in our country to revitalize the Leninist principles of cooperation and the development of new forms for it have aroused huge interest. This is not a simple revitalization of the crafts cooperatives from the beginning of the 1960's, which were mainly involved in cottage industries, but the creation of a broad network of "nontraditional" cooperatives in social services, food services, trade, the procurement and processing of secondary raw materials, professional and trade services. These types of cooperatives are to fully satisfy the demand for consumer goods and services.

In this country on 1 January 1988 there were 13,900 such cooperatives with a total of 155,800 members, compared to 15,000 at the beginning of 1987. Of course, compared to the production scales for consumer goods and services, their output is miniscule. In the USSR in 1987 cooperatives only accounted for 0.03 percent of consumer goods, 0.3 percent of food services and 0.6 percent of personal services. The trend is only beginning: During the first half of 1988 another 18,640 cooperatives began operation; there are now 458,700 people working in 32,561 cooperatives. While during 1987 cooperatives produced 349.7 million rubles worth of goods and services, during the first half of this year output totalled 10,373 million rubles.

There are also increases in the scale of officially registered individual labor activities (ITD). When the law on individual labor activities went into effect (May 1987), there were 82,000 such individuals officially registered with financial organs. On 1 July 1988 this had reached 512,100.

Sociological surveys conducted by the Scientific Research Institute for Labor in 1988 distinctly showed differences in opinions about cooperative and individual activities: 37 percent of those asked said that they were not needed, 31 percent were for them, while the remaining (almost one-third) had no opinion. Information from other sources also indicates a polarization of viewpoints: some see nontraditional cooperatives and individual labor activities as beneficial, noting the positive effect on our society in that they help meet the demand for goods

and services which are either not produced by the state sector, or are produced in small amounts; they result in direct and indirect savings of resources, bring private individuals into productive work, develop secondary activities, help more completely use labor resources, create stimulating competition for the state sector, of course not for giants such as machinery building, but, services, for example, creating a way of comparing work quality. Some negative aspects are considered to be strictly temporary, caused by the insufficient development of the cooperative movement and individual labor activity. Others, in contrast, stressing these negative phenomena, consider them to seriously discredit socialist equality and justice and conclude that ITD and cooperatives are developing at the expense of the state sector and are hurting it.<sup>1</sup>

In our view, both evaluations are one-sided and do not reflect the truth. Here it is fitting to compare cooperatives and individual labor activities with medicines, which together with their healing effect also have negative side effects. Sticking with this metaphor, the question then is how strong will the side effect be to cause the medicine to be rejected? An answer obviously requires the following: First, a sober evaluation of the side effects together with the "therapeutic" effects of cooperatives and individual labor activities; second, finding the area (and what doses) in which it is advisable to introduce such forms; third, finding ways to counteract side effects. These latter are manifested in: (a) illegal and criminal activities; and (b) negative effects of a social and economic nature arising in the legal and normal functioning of cooperatives and ITD.

Illegal side effects are mainly linked to the illegal use of public resources—stolen materials, spare parts, state or kolkhoz vehicles and equipment for easy profits. Is this necessary? Of course not. It should be specifically stated that the legal individual and cooperative sector does not present an increased danger of illegal economic activities. On the contrary, the legalization of previous "shabashniki" and "hack workers", giving ITD normal organizational forms, including the creation of cooperatives, setting up controls, including taxes and legal channels for supplying finished products and sources of materials and equipment—all this eliminates the grounds for those violations which inevitably accompany a "shadow," i.e., officially unregistered, economy. Of course, there is the danger that people who have already come into conflict with the law in the state sector may attempt to engage in their illegal business in cooperatives or under the cover of an official license. The law "On Cooperatives in the USSR" considers the probability of this negative tendency and includes provisions on putting restrictions on cooperative membership to people who have previously committed crimes against socialist property. People whom a court has forbidden to engage in certain activities cannot be members or perform their work under a labor contract in a cooperative. People having criminal records for theft, bribery and other corruption cannot be elected chairmen or members of the board, chairmen or

members of auditing commissions (auditors) of cooperatives or work in other leadership positions of material responsibility.<sup>2</sup>

Of special interest are the negative social and economic consequences not conflicting with legal norms. There can be and are redistributive processes in favor of the cooperative and individual sector, making it possible to obtain incomes in excess of one's labor contribution. This is the basis of a whole bundle of social contradictions: An intensification of the unjustified property differentiation of society, the outflow of qualified labor power from the state sector, the weakening of interest in public production, because in only part of a work day in a cooperative or at home one can earn more, sometimes a lot more, than in an entire day at the main job.

Redistribution in favor of the individual and cooperative sectors allowing them to take from the public coffers more than they contribute is due to several factors. Individual and cooperative labor initiatives are oriented mainly towards producing extremely scarce goods and services, those in great demand, so their price considerably exceeds costs and are higher than the socially necessary level.<sup>3</sup>

Can ways be found to counteract these redistributive processes? It is usually thought that the maximum development of individual activity and cooperatives can saturate the market and create competition with the state sector lead to price reductions.

**Is it realistic to expect massive reductions in prices of cooperative and individual sector products as a result of competition from the state sector?**

In our view this is not a very realistic prediction. At present, competition between the state sector and cooperatives and individuals is totally lacking or is very insignificant because these sectors only slightly overlap with regard to the assortment of goods and services. As already mentioned, cooperative and individual labor activities are primarily active where there are shortages and high demand. This usually means that the state sector has no serious influence in this market. For example, most food service cooperatives specialize in shashlik or other exotic types of eastern cuisine. Very few cooperatives would enter into competition with mass food service operations—the everyday low cost cafeterias and cafes.

Can one condemn cooperatives and individuals in their striving to occupy free "economic niches?" Obviously, not. After all, the reason for the extensive development of the cooperative movement is above all to close the breach in the production of goods and services where large centralized operations cannot (or at least are not trying) to penetrate, and not to redistribute the provision of some goods and services from enterprises of one type to those of another. The differences in assortment

between cooperatives and the "large economy" is one of the "therapeutic" qualities of the former.

What about situations where there can, in fact, arise competition between state and the cooperative enterprises? It is not at all simple. There are two tendencies here: First, where competition assumes a form of administrative pressure on cooperatives and individuals; and second, when it is replaced by "a marriage of accounts." In those cases where cooperatives and individuals really break the monopoly of state enterprises, the latter are inclined to use administrative pressure. As founder-enterprises, they are disinclined to organize cooperatives. They exert pressure upon the ispolkoms of local soviets to forbid licensing and registration of cooperatives.

The law "On Cooperatives in the USSR" created the legal prerequisites for overcoming this type of administrative action. In contrast to previous government decrees, which allowed the formation of cooperatives only at founder-enterprises, this law makes possible the independent formation of cooperatives and the right to appeal in court the refusal to register a cooperative charter.<sup>4</sup>

Of course, the approval of this type of legal norm is a huge progressive step. Unfortunately, however, not all potentials are converted into reality, this requires several conditions. The registration of cooperative charters has been considerably facilitated. According to the law, cooperatives are not created through the special authorization of soviet, economic management or other organs. They are considered created at the time their charter is registered. In reality, however, it is impossible to lease facilities and equipment and to acquire raw and other materials without the actual agreement of soviet and economic management organs. It is no accident that only 59 percent of registered cooperatives have begun operations.

To overcome the negative reaction by state enterprises delaying the development of individual and collective initiative it was decided to make their interests compatible: The work performed by cooperatives is now counted towards fulfillment of the founder-enterprise's plan; cooperatives now act as contractors, helping fulfill plan targets for state enterprises. The latter have an interest in the extensive development of cooperatives, but not in reducing prices for their goods and services, as high prices make it easier to produce the necessary volume in value terms, and to fulfill the plan.

Thus, state enterprises are not competing with cooperatives, but are actually creating conditions for areas of monopoly activity in which products and services are sold at higher contract prices. This "marriage of accounts" has become quite widespread and often leads to distortions in the very idea of the cooperative movement as an additional reserve for meeting market demand.

According to the USSR Council of Ministers, food service cooperatives should not be set up to replace existing operations, but to supplement them. In practice the situation is often different. A survey conducted by Moscow People's Control organs showed that a considerable share of the 200 cooperative cafes in the capital are based upon previously functioning food service enterprises. This has led to price increases and not to healthy competition.

Experience shows that it will not do to place hope only on the "objective laws of healthy socialist competition," which are supposed to "automatically" improve the market situation for consumer goods and services—these laws do not have a big enough effect.

Does this mean that the cooperative economy is not having any positive effect upon consumer prices? In our view, no. This positive effect is manifested not through competition with large public production operations, but with the "shadow" economy and with the black market, with which it has a direct overlap in assortment. Cooperatives force the black market to reduce prices, but it does not have a large share of the market for most goods and services. Specialists estimate that about 18 million people are engaged in individual labor activities (legal and illegal). The total annual turnover in this sphere is 14-16 billion rubles, about 31-35 percent of the total volume for paid services in the public sector. Repair work is the most traditional area for the "shadow" economy. Individuals do 50 percent of footwear repair, 45 percent of apartment repairs and 30 percent of repair work on complicated domestic appliances. About 60 percent of all motor vehicle servicing is performed by private vehicle services. We note that almost 64 percent of all work performed by new personal service cooperatives involves these types of repairs. Competition with the "shadow" economy is a therapeutic effect of the cooperative movement.

After noting all these facts, can one assume that the future expansion of cooperative and individual sectors will result in massive reductions in prices? To assume this is not to understand the small scale nature of these sectors. Flexibility, the ability to quickly reorient themselves towards the production of nontraditional goods and original services is the main quality of cooperatives and individual labor activities. This is a solid base for continual changes in assortment, that is, getting rid of those products which are not selling well (by reducing prices, goods become unfashionable, the state sector has begun their mass production, etc) and the shifting of activities to where there is favorable market competition. The small scale sector is inclined to expand not in depth, but in breadth, that is, it does not increase the production of a single good or service, but shifts from small groups of some items to small groups of new ones. There is thus not a massive reduction in the prices for this sector's products, although they have fallen for some, but a continual change in assortment towards more profitable items.

Small scale production has higher prices than the state sector and creates redistributive processes to its own benefit. These are among the unavoidable side effects accompanying the "therapeutic" effects of individual and cooperative activity

#### **Can cooperative and individual prices be regulated?**

This question ought to be answered positively. The main complaint against some cooperatives and "individuals" is that they purchase raw and other materials at state prices, but sell finished products at high contract prices, thus acquiring speculative income. There are frequently cases where the markup is up to 1,000 percent of raw material costs. A vivid example of this is the cotton candy made from sugar and plum oil purchased at state stores and processed into the right consistency on an ordinary centrifuge. Scarce state products seem to disappear in the wind, while money is made from air.

There are many such examples. Here is just one. A Moscow factory was burning wastes—tobacco crumbs. A cooperative offered to buy the crumbs at 80 rubles per ton from the factory and process them into fertilizer. But the "processing" was only packing, after which the crumbs were sold for 960 rubles per ton. The profitability—the ratio of profit to production costs, was about 1,000 percent

What is the solution? Accept the consequences of completely free price formation or somehow regulate prices? The second of these solutions is often rejected "at the root," as being unjustified administrative interference in cooperative functions and disturbing the normal (also beneficial) actions of the law of value. It is thought that this action in itself will lead to price declines and the suppression of speculative incomes. There is no basis for such hopes—either from what has been said above, or in the hundreds of years in which the law of value has been in operation. If one assumes that this law works automatically, the negative phenomena associated with cooperative activities will not be eliminated, but will spread. Shifts in demand will be increasingly used to gain unearned income (setting prices which conveniently deviate from value under the effects of the relationship between supply and demand does not contradict the law of value, but follows from it). Thus, it is unsuitable for society to not interfere at all in market price formation process. (Incidentally, there is interference even in capitalist countries). On the other hand, it is necessary to avoid unjustifiable administrative pressure on the initiative of cooperatives and individual labor activities.

According to such premises, it is necessary to set general rules for price formation. The Law "On Cooperatives in the USSR" solves many fundamental questions in price formation. It gives cooperatives the right to set prices for their products either by contracts with customers or independently. In some cases this independence is limited by state control and centralized price setting, where products (work or services): (a) are produced on the basis

of state orders; (b) are made from raw materials delivered to a cooperative from state resources; (c) are goods allocated from state market stocks for sales to the public (the list of goods which cooperatives can buy in state trade is drawn up by the ispolkoms of local Soviets of people's deputies). If cooperatives increase the prices for these goods, the unjustified profit is allocated to the budget and a fine, equal to the illegally obtained additional income, is levied.

In spite of the logic of this scheme for regulating price formation, it leaves several questions open. Today, markups for bread, mineral water, coffee and other products cooperatives obtain from state trade are set centrally at the level of markups for similar state enterprises. What about instances where products are made from several types of raw materials, some of which a cooperative makes and prepares itself, while others are obtained from state resources? Can a cooperative itself set prices for these products or are they to be set centrally. In order to avoid unjustified interference restricting cooperatives' initiative it is necessary to precisely explain how these provisions in the law apply to various situations.

#### **Equal rights should be mutual, or a partner, and not a burden.**

Assume that economically justified "correct" prices have been set for cooperative and individual labor activities products. Does this mean that all problems will be solved and all "side effects" overcome? Unfortunately, no. Even in those instances where goods and services produced in these sectors are sold at state prices, there are redistributive processes because cooperative structures for distributing gross income are different from those at state enterprises.

First of all, cooperatives have different relations with the budget when it comes to distributing income. The maximum income tax on gross income for a cooperative is 10 percent, while the average for state enterprises making similar deductions is 21 percent.<sup>5</sup> In Hungary, where the system for managing small cooperatives is basically similar to the Soviet system, the income tax is 28 percent, while for service cooperatives it is 17 percent.

Cooperatives' lesser degree of contribution to common budgets and retention of most income is usually justified by references to the nature of cooperative property. In contrast to state enterprises, cooperatives do not obtain a state fund account, centralized capital investments or subsidies. They should reproduce their material base completely on their own. Theoretically, this is accurate; however, it does not completely correspond to contemporary practice. Cooperatives do not strive to acquire fixed capital as collective property of their own, but to obtain it mainly free of charge or by lease from the ispolkoms of local soviets or enterprises and organizations at which they are created. This approach is correct. It is unreasonable to wait until cooperative members can

accumulate the needed resources. It is much more rational to let them use surplus, unutilized fixed capital. It must be kept in mind that cooperatives have several other financial advantages over state enterprises, and sometimes at their expense. Cooperatives do not make budget payments for their productive capital, as it is thought that the latter is acquired by cooperatives with their own resources. This also correctly applies to productive capital leased by cooperatives, payment for which is equal to depreciation allowances. The capital actually used by cooperatives remains on the books of state enterprises, which pay 2-8 percent of its value into the budget.

Of course, some of the subsidies for cooperatives are justified, particularly those during their founding. To support the cooperative movement government decrees provide that during their first year cooperatives pay a 2-3 percent income tax, in the second year, 3-5 percent, and only starting in the third year do they pay the full amount.

It is necessary to distinguish temporary and targeted incentives subsidies to various types of cooperatives from situations where one sector of public production systematically receives a unilateral advantage over others.

The lower income tax and the free or subsidized fixed capital makes it possible for cooperatives to use a larger share of their profits to pay labor. This share reaches 60 percent in cooperatives producing consumer goods and 70 percent in cooperatives collecting and processing secondary raw materials. For comparison, we note that during 1985-1986 state industrial enterprises allocated 15-19 percent of their profits to their economic stimulation funds.

Even if they have the same transfer prices for finished products and services as do state enterprises and organizations, cooperatives use a larger share of their income or profit to pay labor and a smaller share goes to common budgets and the development of their own fixed capital.

In defining the provision "legally equal interaction" between state and cooperative sectors, the law "On Cooperatives in the USSR" says that they should be really equal partners, not commanding, exploiting or infringing upon one another. However, this equality should be mutual. In particular, one of these two forms of public property should not provide members of society with differing earnings for equivalent work in similar conditions. In this regard cooperative enterprises generally have one-sided advantages compared to state ones. This does not just involve the specific nature of cooperative property, but imperfections in the normative base and the turnover tax system.

Of course, cooperatives have objectively different structures for distributing gross income than do state enterprises. However, it does not follow at all just from the nature of cooperative property that a large share of income should be "eaten up" and a smaller share go to production and social development. This is a result of several specific historical circumstances. Above all it is due to the subjective psychological characteristics of cooperative members, reflecting the cooperative movement's difficult history: Why think about productive and social accumulation, which will have an effect only in several years, when it is not known how political attitudes towards cooperatives will change, it is better to have guaranteed cash in hand now. Imperfect tax policies also have an effect. Taxes should stimulate productive and social accumulation and counteract the unjustified differentiation of incomes ensuing from manipulation of the distribution of gross income

#### Why do cooperatives have two taxes?

The question about taxes, just as the question about prices, is one of the most urgently discussed, as it directly touches upon the interests of cooperative members and society in determining the share of income which each receives. Today there are still several unsolved problems and unsatisfactory claims. One possible solution to this is in the law "On Cooperatives in the USSR" which provides for two taxes on cooperatives. The first, a tax on cooperative common income (in some cases profit). The second is a personal tax on cooperative members and persons working on labor contract at a cooperative. The question arises: Why are two taxes on cooperatives needed?

If two cooperatives perform the same work, but at different prices, then, naturally, the absolute gross income will be higher for the one with higher prices. In our view, one function of a tax on gross income (profits) is to regulate their absolute size, depending upon price level. Obviously, those enterprises which have centrally set prices should have higher abatements on their tax rates than those which sell their products at contract prices. Differentiating this tax is a specific requirement in Statute 41, Paragraph 4, of the law "On Cooperatives in the USSR: "...local soviets of peoples deputies, together with the appropriate all-union (associations) of cooperatives and state administrative organs, are obligated to use economic methods to counteract monopoly tendencies in some cooperatives and the artificial raising of prices (and rates)..."

"Let us take two cooperatives which sell their products at the same state price and have equivalent gross incomes. People in these cooperatives could receive differing earnings for the same amount of labor. Earnings depend upon how much income remaining with a cooperative is used for production and social development and how much goes to the labor payment fund. The cooperative which purchases equipment, builds cafeterias and show-ers, that is, spends more on production and social

development, pays its workers relatively less. Consequently, it is important not only to differentiate the absolute size of gross incomes in similar enterprises, but the proportions of their net incomes going to production and social development and to pay labor. The law "On Cooperatives in the USSR" establishes that this distribution is the exclusive right of the general meeting of cooperative members. Special attention should be given to the economically justified ratio between resources allocated for production development and to pay labor."<sup>6</sup>

How can it be seen that this "economically justified ratio" will not overcome cooperatives' strivings to "eat up" more than they invest in production or social development. Initial experience shows that unfortunately this tendency exists. How can this negative effect be counteracted without infringing upon "the general meeting's exclusive rights." It must be recalled that according to the law "On Cooperatives in the USSR," "to assure the economically expedient ratio between resources allocated by the cooperative for production and social development and payments to labor, a progressive scale should be established for taxes on the personal income of cooperative members and individuals working under contract in a cooperative."<sup>7</sup> This is why it is necessary to have a second progressive tax on personal incomes. In addition to everything else, this is a way to indirectly influence the economically justified ratio between the two basic components of net income in a cooperative. It is also a way of counteracting the unjustified differentiation of personal incomes resulting from violations of this internal proportion. The purpose of progressive taxation is not to "extract" incomes from cooperatives, but to overcome the striving to live only for short term interests. A tax should stimulate their participation in solving production and social tasks.<sup>8</sup>

As is known, the first attempt to introduce progressive taxation, implemented prior to the approval of the law "On Cooperatives in the USSR" was unsuccessful.<sup>9</sup> The law substantially refines the concept and tasks of progressive taxation and provides incentive subsidies for its use. Nevertheless, an entire complex of problems involving this form of taxation remains unsolved.

First, it was not precisely determined what payments to include in the fund for payments to labor, and what in the social development fund. This permitted Ministry of Finance workers to reclassify several payments which state enterprises make tax-free out of their social development fund (payments for vacation and health trips, lease of sports facilities, gifts to veterans and progressive workers). When applied to cooperatives these were considered payment in kind and subject to progressive taxation. Obviously, the equal rights of the two sectors should be observed in this area also.

The law makes possible incentives creating differentiation of taxes, depending upon the national economic importance of cooperative products and reductions in

price. However, tax rates should also consider the differentiation in payments to labor in differing regions. It is hardly proper to use a single base tax for cooperatives working in Moscow or in the Far North and in other inaccessible regions.

The setting of tax rates cannot be restricted to comparing the cooperative sector with the state as was done in working out the first tax plan. It is also necessary to include a "third force" which has a considerable role in some spheres of our national economy, the "shadow" economy. There should be a comparison of the allowable levels of cooperative income with the actual incomes in their activities, as cooperatives are an alternative. Without taking this into consideration the supposedly sincere concern about the state budget, reflected in strict tax policies towards cooperatives will, in practice, lead to the opposite results. Some types of activities remain in the lap of the "shadow" economy and are not drawn into the publicly regulated cooperative movement.

Only time will tell if progressive taxation upon final personal incomes will be able to provide incentives to productive and social accumulation and to counteract the unjustified differentiation of incomes due to manipulation of net income distribution. Possibly, corrections will have to be made and other models for regulation used.

The development of the cooperative movement, the legalization and public recognition of individual labor activity are objective requirements for the development of Soviet society. However, they require a sober, balanced attitude towards these phenomena, overcoming extremes, either excess optimism or biased pessimism. In addition to the undoubted positive effects they have on several spheres of the socialist economy, it is also necessary to keep in mind the social and economic problems they create. Some of these problems are genuinely temporary and transitional. They are due to incomplete answers to organizational and legal problems and imperfections in the mechanism for regulating prices and taxes. Others are an unavoidable accompaniment of small scale production, following from its very nature. Social and economic policies towards cooperatives and individual work should be based on these social and economic problems. If not, the side effects can overwhelm the "therapeutic" effects.

#### Footnotes

1. A survey of Muscovites conducted by the weekly *Argumenty i fakty* in August 1988 showed that 38 percent of those questioned think that the development of cooperatives and individual labor activities will strengthen our economy; 33.7 percent answered that widespread cooperative and individual labor activity in its current forms will lead to definite negative consequences. They stated the need to establish stricter state control over prices, product quality and cooperative income; 13.3 percent had a sharply negative attitude. In

their opinion, this activity is not compatible with socialism. *Argumenty i fakty*, No. 34, 1988, p 4.

2. USSR Law "On Cooperatives in the USSR," Moscow, 1988, Statute 12, Paragraph 5.

3. Sociological surveys of results from cooperative activity conducted by the Scientific Research Institute for Labor show that 52 percent of urban dwellers think that cooperative prices are too high, 16 percent that they are high and only 19 percent think that they are acceptable. According to another survey, 3.3 percent use cooperative and individual services quite frequently, 31.8 percent use them sometimes, and 63.3 percent never use them (1.6 percent did not want to answer). Most of those asked did not use services of these sectors because of the high price. *Argumenty i fakty*, No. 34, 1988, p 4.

4. The fate of those occupied in individual labor activities is more complex in this regard, as they do not have the legal guarantees possessed by cooperatives. Individuals can (see Statute 6 in the law on individual labor activity) make complaints only to superior organizations, and not to a court.

5. For some cooperatives the tax is not upon gross income (profit, wages) but upon profit. In particular, this form of tax is levied upon cooperatives set up at consumer unions, where 35 percent of profits go to the budget. For comparison, we note that in 1985-1986, state industrial enterprises contributed 55-58 percent of their profits to the budget.

6. USSR Law "On Cooperatives in the USSR," Statute 18, Paragraph 1.

7. Op. cit. Statute 19, Paragraph 2.

8. The proposed scheme for regulating cooperative relations is not the only possible one. Experience in European socialist countries also provides other models for solving this problem. In 1986 the cooperative sector in the GDR included 2,732 crafts production cooperatives (PKR) in which 162,000 people were working, producing goods and services valued at 8,055 million Marks. In the GDR there are standardized prices and rates for goods and services independently of the form of property upon which the producing enterprise is based. PKR make payments for capital into the state budget (6 percent of value), pay a turnover tax (3 percent) and a profit tax, which depends upon cooperative profits per worker and upon enterprise activities. Payments to the budget total about 60 percent of PKR profit. In addition, cooperative members pay the same income tax on their earnings as do workers at state enterprises. Local authorities and the banks regulate the distribution of net profit in the PKRs to their funds: share, financing of fixed and circulating capital, reserves (spent on social development) and public consumption fund.

Rewards to cooperative workers are equal to wages for workers at similar state enterprises. Additional incentives to their labor are provided from the public consumption fund, allocations to which cannot exceed 50 percent of PKR net profits.

9. The USSR Supreme Soviet Session (May 1988) did not approve the Ukaz of the Presidium of 14 March 1988, "On Taxing Citizens Engaged in Individual Labor Activities and Working in Cooperatives Producing and Selling Products and Services."

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## CIVIL AVIATION

### Designer Comments on Tu-204, Cryogenic-Fueled Tu-155

18290104a Kiev *RABOCHAYA GAZETA* in Russian  
14 Jan 89 p 3

[Article by APN correspondent Ye. Smirnov under the rubric "The Reporter Reports": "Aeroflot's Premieres"]

[Text] The restructuring that has gone on for over three years has now also affected the Tupolev Design Bureau [KB]. In the words of General Designer Aleksey Andreyevich Tupolev, this is expressed not so much in structural changes and the renewal of outmoded work practices as it is in a review of priorities for further development in aviation technology. Under the conditions of the transition of the country's economy to new and more intensive methods of economic operation and raising the attention of society toward issues of resource conservation and environmental protection, the KB has taken the course of creating the most economical and ecologically clean aircraft in the world.

In recent years the designs of the Tupolev KB have truly performed the lion's share of passenger transport in the USSR. The Tu-154, including modified versions of it, enjoys especial popularity among the employees of Aeroflot, as well as among passengers.

The Tu-204, which is already ready for flight testing, is the airliner called upon to serve as a worthy replacement for the Tu-154 at the beginning of the 1990s. This aircraft will make it possible to transport considerably more passengers, while it is one and a half to two times more economical with fuel than the majority of the aircraft being operated by Aeroflot today.

The birth of the Tu-204 also marks the advance of Soviet civil aviation to a completely new level of productivity, safety and comfort. Strictly speaking, the ideas of utilizing machinery intensively (minimum time on the ground and maximum in the air), raising reliability and reducing the psycho-physiological burdens on the crew, along with offering a maximum of amenities for passengers, were implicit in the design of the airliner.

By way of example, the wing of the new aircraft is formed in super-critical shapes with high relative thickness in order to provide good aerodynamic properties. Specially shaped surfaces have been installed at the ends of them. The main planes of the aircraft have been executed without joints.

The piloting and navigational equipment makes it possible to fly in autopilot mode from takeoff to landing along optimal programmed flight paths. Special systems therein warn the crew of critical conditions and dangerous proximity to the earth, ground obstacles or other

aircraft. The system envisages automatic redundancy in the event of failure by any vitally important units, devices or systems.

The new aircraft is quite spacious for a craft of its class: 214 passengers versus 164 in the Tu-154. The distance between seat rows has been increased in the passenger cabin, while the seats themselves have become more comfortable. All passengers are provided with emergency oxygen supply. The kitchen and toilets are modular and can be increased where needed.

The maximum commercial load is 21 tons, and cruising speed is from 830 to 850 km/hr.

Another landmark aircraft that the KB is currently working on is the Tu-155, which began flying on April 15 of last year. This is the first aircraft in the world able to utilize cryogenic fuel: liquid hydrogen and liquified natural gas. The NK-88 engine for the new craft, called upon to institute a turnaround in domestic (and perhaps world as well) aircraft construction, was created by the design bureau headed by Academician N. Kuznetsov.

The employment of aircraft that fly on cryogenic fuel in the near future will make it possible to reduce markedly the harmful ecological effects of aircraft on the atmosphere. The combustion of the fuel the Tu-155 flies on, after all, discharges only pure water and an insignificant quantity of ozone into the atmosphere.

A most careful check on the operation of all systems, including the crew information system on dangerous conditions or the filling of volumes (fuel tanks) with inert gases, is currently underway in the course of flight testing of the Tu-155. These experimental flights have enormous significance for the creation of cryogenic aviation.

### Aeroflot Flying Laboratories Highlighted 18290127a Moscow *VOZDUSHNYY TRANSPORT* in Russian 27 Dec 88 p 1

[Report by VOZDUSHNYY TRANSPORT correspondent A. Filippov: "Flying Laboratories"]

[Text] Operations to remove the after effects of the tragic earthquake in Armenia are moving forward very rapidly. Airmen are taking an active part in them. The second stage of the operations has begun—raising the cities and villages from the ruins and restoring the enterprises of the national economy and the agroindustrial complex.

Earthquakes in mountainous localities lead to extensive deformation of the contours of the earth's surface. The channels of streams and rivers flowing from mountain slopes are changed. Obstructions appear in the fissures, threatening to hit the people with mud flows, resulting in new tragedies. In order to avoid further casualties and determine in detail the consequences of the natural disaster in Armenia's agroindustrial complex, flight

crews of Aeroflot's flying laboratories, equipped with radar and cameras, will take aerial photographs and conduct radar soundings over the area of the disaster at a given time. The other day an AN-30 with the side number 30001 from the Myachkovskoye OAO [Unified Aviation Detachment], commanded by S. Sokolov, landed at Yerevan's old airport for this purpose. Its crew is working under orders from the Moscow Space Aerology Expedition by helping the scientists photograph the earthquake's epicenter. An AN-30 with the side number 30042 from the Myachkovskoye OAO (aircraft commander V. Shibayev), which is making flights out of Tbilisi, is also taking photographs directly over the epicenter of the earthquake on orders from the Geodesy and Cartography Main Administration. Aviators from the same detachment, based in Sochi, are conducting similar work in an An-30 with the side number 30072 (aircraft commander V. Mosolov). A crew from the Myachkovskoye OAO led by B. Volkov arrived in Sukhumi in an An-30 with the side number 30023; they will work on instructions from the State Institute for Studying Natural Resources. An An-30 with the side number 30021 commanded by A. Tkalov, on assignment from the Government Commission, repeatedly flies out of the Krasnodar airport in support of scientists from the Institute of Heat Technology.

In addition, the Tu-134SKh flying laboratory, side number 65929, from the Voronezh Aviation Enterprise, which has been leased for five geological reconnaissance flights by the USSR Gosagroprom [State Agroindustrial Committee], is operating over the earthquake area from the airport in the city of Groznyy.

The aerial photographs processed by the specialists will be sent to the State Commission for determining the extent of the catastrophe and making decisions on new construction in the region.

#### **Chief Interviewed on Flight Service Reorganization**

18290127b Moscow VOZDUSHNYY TRANSPORT  
in Russian 2 Mar 89 p 2

[Interview with M. Tereshchenko, chief of the Flight Service Main Administration, USSR Ministry of Civil Aviation, by VOZDUSHNYY TRANSPORT correspondent M. Blinov: "Personnel—the Foundation of Renovation"]

[Text]

[Tereshchenko] I want to begin the discussion with the decision of the MGA [Ministry of Civil Aviation] collegium to reorganize the flight service. It has made it possible to take a new step in assessing the status of flight safety and the role of command personnel locally and staff members of the Flight Service Main Administration. Their rights to make decisions independently have been extended and their responsibility for them has been increased. An especially critical problem—the use of

small aircraft flight crews—has also been resolved: ordinary pilots are authorized to fly two types of airplanes and helicopters of the third and fourth classes.

[Blinov] How has this been received?

[Tereshchenko] Unfortunately, this practice is not yet widespread, and one of the reasons is command personnel fear of committing pilots to fly two types of aircraft. I will mention another new development: we are introducing a copilot in a crew in accordance with the level of training corresponding to the requirements for aircraft commander (at present in Latvia in transport work and in the Ukraine in PANKh [Use of Aircraft in the National Economy] subunits). We expect to increase the reliability of the crew and its readiness for special circumstances in flight. This is a path toward developing a highly skilled reserve for new types of aircraft.

[Blinov] Won't there be any copilots at all?

[Tereshchenko] But why? Copilots will be those who will not be able to start at the commander level for professional qualities. This will be the procedure: coming from retraining, the pilot will sit in the left seat right away. He will fly with an instructor, who will make an objective assessment of his skill and abilities.

[Blinov] But we need a well trained staff of instructors for such work.

[Tereshchenko] We are reviewing the structure of the flight detachment. At present there is a gap between the flight command personnel and the crew, especially in the level of training and the methods of monitoring and evaluating flight training. Because of this, we believe that a large number of the flight accidents and prerequisites for them—up to 20 to 22 percent of the total number—are with a check pilot on board. Of these, 90 percent are with deputy squadron commanders and higher. Hence the conclusion: it is necessary to reduce the number of check pilots and to make responsibility for training cockpit personnel more specific. We believe that this function should be given to an instructor pilot.

[Blinov] How will this be in practice?

[Tereshchenko] We are developing an exclusive system for training instructor personnel. They will undergo a psychophysiological selection, a course in theoretical training, receive the latest information on training methods and analysis of aviation accidents, and work out methodical recommendations for training a crew in the different elements of flight. Then practice in a simulator, perfection of flying techniques, and finally, work with two or three retrained students as an instructor. He has flown the entire retraining program with them and received an evaluation. On the basis of all stages of the training, the chief of the CEMA Civil Aviation Center, where the school will be based, will publish an order and issue an instructor pilot certificate. This, of course, is the

ideal; the GlavULS [Flight Service Main Administration] will have to work well and persistently together with the ministry's Education and Training Establishments Administration to achieve this.

[Blinov] And he will come to a subunit and all his skill will not be needed very much there...

[Tereshchenko] No, no. He will come to a subunit, receive five to seven crews for his protection, and bear full responsibility only for the readiness of a specific crew for a specific flight assignment under specific conditions. For this we are excluding him from the check pilots. He will be flying as much as he thinks necessary and with whom he considers it necessary to fly. That is, there is no need to invent a number of "tasks" or "exercises" with which he supposedly checks a crew. At the same time, his basic flight methods task will be to raise the level of the assigned crews to the ideal.

We are reviewing the status and program of training cockpit personnel. The instructor will receive the right to take a pilot from his arrival from retraining to the level of aircraft commander. At the same time, he himself, without being checked by the flight detachment commander, takes the pilot to the next exercise and draws the conclusion himself about the pilot's readiness for solo flight.

[Blinov] Won't it turn out that the instructor will become "tsar, and God, and military commander" for his crews? With favorites and those who are unfavored?

[Tereshchenko] Glasnost should become the guarantee of the ordinary flight crew's rights. Selection of the candidates to be put into service, this process itself, and evaluation of the crew's work should be discussed in the collective. Just as advancement to the reserve for supervisory positions and the election of supervisors. Our task is to provide assistance in shaping the commanders that have been selected. Including through special courses at the Civil Aviation Academy.

And afterward, we hope that now we will not have to deal with "silent" and "intimidated" people, as the journalists like to say, but with active, bold, independently thinking flight specialists.

[Blinov] Do you believe that the ordinary pilot's professional merit and boldness in defending his opinion and his position will come through so quickly?

[Tereshchenko] I believe it, because we are trying to build our work on trust for cockpit personnel. We have already rescinded more than 300 documents regulating flight work. We are reviewing another 200. Crews are already flying without a daily medical check in airborne chemical treatment operations. We trust the commander.

Many criticisms for various reasons, both justified and totally unjustified, result from the directives and instructions coming from the ministry. A number of critical letters were published in the newspaper stating in rather vigorous terms that "...the pilot was humiliated..." and "...the cockpit crew was gripped in the vice of instructions..." which demonstrated the groundlessness of different documents. But unfortunately, there was more emotion in this than analysis of the current system of documents, and there have been hardly any constructive suggestions at all. And voluntarily or not, they engendered doubts among cockpit personnel about the necessity for strict observance of the rules in force.

In order to avoid this, we established a flight methods council under the Flight Service Main Administration. It is made up of 90 pilots from all the civil aviation administrations. These are the best specialists, respected and experienced aircraft commanders and instructors. All documents are evaluated at sessions of the council and its sections before they are put into effect.

The general structure of the ministry's guidance documents has already been approved. The basic purpose of the structure is to narrow down the list of documents that cockpit personnel must study, to increase their training in the law, and to define the personal responsibility of specialists for flight safety.

We are including science in the solution of this problem as well. Together with the Civil Aviation Academy, we are establishing a flight methods complex under the academy. It will develop a program of flight training and practice and the requirements for the level of professional training. We hope that this will rid the new programs of carping and increase the degree of confidence that cockpit personnel have in it.

We are considering providing training on this basis for flight command personnel in a new capacity: a pilot-researcher with excellent flying technique and an inclination toward scientific activity.

[Blinov] A unique flying professorship. But won't it turn out that units will be good at everything, but the rest will be left with average ability?

[Tereshchenko] We are very disturbed by the condition of flight methods work. We decided to teach, generalize and disseminate the experience of the best pilots, crews, and flight collectives with the aid of the flight methods complex. After all, even now a great deal of interesting work is being done in the Latvian, Lithuanian, North Caucasus, and Far Eastern Administrations. And we want to see that this work becomes part of the system and does not fade away after one-time measures. We see the solution in the development of base flight subunits and training centers. So that the generalized experience and recommendations developed in the GlavULS, the

GOSNII [State Civil Aviation Scientific Research Institute], and the academy can be adopted in collectives capable of implementing what has been planned.

[Blinov] A great deal of work. But in order for it to be successful, the efforts of all flying personnel are probably needed as well. Not the usual attitude: "the office writes..."

[Tereshchenko] We need discipline first of all.

And incidentally, about "the office, which writes." I hope that soon it will be "writing" very little. We are now assessing the possibilities of creating a data bank in the ministry for all the types of activity involving flight command personnel. It will include the causes of flight accidents and recommendations on their prevention, features associated with flying in different regions of the country, and the flight performance of specific types of aircraft. Any flight detachment commander, where the specific equipment is available, will be able to obtain any data from this bank at the level of knowledge of the ministry's specialists.

[Blinov] But do we have them now?

[Tereshchenko] We have them, but they are entirely different. One day the chief of the inspectorate in the West Siberian Administration telephones from Kolpash-evo. He says that there is no one to check out the helicopter commanders, since they discontinued the unit commanders. I ask: "Do you have instructor pilots?" "Yes," he answers. "Then let them perform the check-out." "But this has not been provided for, after all..." "It wasn't provided for, but I am authorizing it now." "But will there be a directive?" "What do we need a directive for if we are talking on the telephone..." He is silent. I understood him and sent a telegram. It was probably more customary and calm for him that way. So we must make the transition to a new style of management...

## MOTOR VEHICLES, HIGHWAYS

### Deputy Minister Highlights Role of Auto Industry Institute

18290088a Moscow AVTOMOBILNAYA  
PROMYSHLENNOST in Russian  
No 11, Nov 88 pp 1-3

[Article by V. P. Morozov, automobile industry deputy minister: "Standing at the Forefront of Technical Progress"]

[Text] The month of November 1988 marks the 70th anniversary of the Central Order of the Labor Red Banner Scientific Research Institute of Automobiles and Automotive Engines (NAMI), the country's first scientific motor vehicle design organization, established by Lenin's decree of 25 August 1918 on development of scientific and technical activity in Soviet Russia.

The institute in its years of existence has made a substantial contribution to the development of domestic vehicular and engine design. Its scientists, researchers and designers have always stood at the forefront of scientific and technical progress, helping the country to satisfy its needs for the necessary transportation means. Now, however, considerable restructuring (perestroyka) is required in NAMI operations in connection with the fundamental changes taking place in the national economy. It should now strike out in the following major directions: work on the more complex problems relating to the future of branch development and technical level of motor transport means; conducting basic and exploratory research on designs and operating processes; creating promising models and prototypes of motor vehicles, tractor-trailer combinations, buses, engines, assemblies and major units; devising branch-wide policies dealing with unification and standardization; improvement of operational reliability and reduction of the labor requirement for products in current production and those being readied for production. In this connection, special importance attaches to the preparation of proposals dealing with improving and developing the motor vehicle industry for the 1991-2000 period and determining ways and means of effecting maximum satisfaction of the national economic needs for motor vehicles, with minimum total consumption of resources both in manufacturing and use. Equally important is development of standard size categories of trucks and passenger vehicles for the years 1995-2005.

The NAMI collective in the near future should concentrate its efforts on researching and creating motor vehicles incorporating advanced technical solutions which will make it possible to verify the efficiency of fundamentally new design concepts and, in addition, create a range of promising transportation means. This includes, in particular, long-haul tractor-trailer combinations offering larger (by 60 to 80 percent) payloads and greater reliability compared to the 1990 level; lower (by 40 percent) fuel consumption; reduced (by 30 to 40 percent) materials input; lower (by 3 to 6 dB) noise level. They completely satisfy international requirements in the area of toxicity, safety and ergonomics. This of course includes passenger cars of the year 2,000, which should be superior to the present models: fuel consumption at two-thirds the present amount; reduced materials input; improvement in dynamic properties by a factor of 1.2 to 1.5; a 6 to 8 dB reduction in noise level; and satisfaction of future international rules for safety, toxicity, etc.

It is natural that electronics will assume a prominent position in future developments. For this reason, NAMI, working in collaboration with the NPO Avtoelektronika, enterprises, and production associations of the branch, is faced with the task of increasing the pace of developing programs introducing electronic and microprocessor control systems for the period to the year 2,000, with the aim of expanding operations related to creating automatic systems. These include vehicle driving control;

data display and diagnostics; multiplex communications; comfort and safety group (climate control, driver's seat position, rear view mirror adjustment, etc.).

Seventy-five percent of the country's automotive fleet by the year 2,000 should consist of special-purpose trucks, trailers, and semi-trailers that offer better capability of hauling various payloads compared to general-purpose trucks. This is also an obligation of NAMI scientists and specialists. This includes creating a family of heavy-duty trailers that are sorely needed to haul heavy indivisible cargo on oil fields of Western Siberia, the Far North, Central Asia, and other areas of the country. In particular, by the year 2,000 it is necessary to develop heavy-duty hydro-volume drives for self-propelled and towed modular units offering payloads of 150 to 2,000 t.

Dump-type gravel trucks offering large and especially large payloads should be developed. Here again the institute is to operate in collaboration with the BelAZ to continue work on a 250-280 t dump truck, diesel-powered trolley trucks, and automatic control systems for gravel vehicles, primarily by creating radio-controlled trolley trucks offering especially large payloads, capable of functioning without operators.

To reduce the materials input in motor vehicle construction, the NAMI should, in conjunction with branch enterprises, associations, and other research organizations, increase by the year 2,000, as compared to 1985, the following outputs in the amount of each associated factor: plastic automotive parts, 3.5; aluminum sheets and sections for truck cargo beds, 3; low alloy steels, 2.5; high-strength cast iron, 2. The amount of metal required to build motor vehicles should be reduced by 12 to 18 percent.

A traditional activity of NAMI specialists is engine design. Radical changes are needed even here. This includes development and production development for the 13th Five Year Plan of the following: six-cylinder diesel engines featuring supercharging and intermediate air cooling for use in the MAZ, KrAZ, KamAZ and ZIL; large and especially large (articulated) buses (piston displacement of these engines should increase by a factor of 1.5 to 1.6 compared to present models); in the future, high-economy adiabatic engines and diesel engines operating on the compound principle; economical, low-toxicity gasoline engines with the combustion chamber located in the piston, increased charge swirling, optimized fuel and ignition systems; variable-displacement engines; and truck engines using gaseous fuels.

NAMI is also a traditional creator of well-designed and often fundamentally new automotive assemblies and systems. This is to remain as a goal to be pursued by specialists, in spite of the, so to speak, rapid growth in research and development facilities in associations and enterprises.

The institute will become involved with standardized, fundamentally new steering mechanisms (power-assisted); single-stage hypoid final drives that will be 300 kg lighter than the two-stage design and require considerably less labor input; air suspension systems offering automatic ground clearance adjustment as a function of load and speed; variable-ratio automatic transmissions designed for 220 to 590 kW (300 to 800 hp); and new generations of propeller shafts made of composite materials or light alloys, etc.

NAMI is committed to resolving the important and pressing problem of automotive reliability, particularly mean time between failures, in collaboration with other organizations and departments of the interbranch Motor Vehicle Reliability scientific and technical complex. In this connection, the institute will function as a methodological center, writing endurance norms for individual automotive parts and test norms.

A prominent position in this work will be assumed by the Central Scientific Research Automotive Testing Ground (TsNIAP) of NAMI. Established in 1964, it is one of the largest research centers of its kind in Europe. Its unique complex of test roads, structures and modern laboratories furnished with the latest road test equipment and automated data processing systems will make it possible to effect substantial reduction in development time of new automotive vehicles. Its affiliates—the Northern Testing Station (at Susuman, Magadan Oblast) and the Southern Automotive Testing Ground (at Pskent, Tashkent Oblast), will enable testing of vehicles under extreme conditions of the Far North and in a hot desert environment.

In 1987 one of the largest wind tunnels in Europe commenced operation at the NAMI TsNIAP. It is designed to test full-scale vehicles, including buses, not only reduced-scale mock-ups, as has been the practice until recently. The result is a substantial reduction in vehicle development time and higher quality of testing.

This facility will employ test stands to a greater extent, thus reducing development time of experimental models to almost a tenth of the present amount. In this connection, the road complex and laboratory equipment will be used more efficiently for acceptance tests and monitoring, research, and certification testing of vehicles against the Rules of the UN EEC. Specialists of the NAMI affiliate will continue to resolve problems involving primarily reduction of the labor requirement and periodicity of vehicle servicing, refining parts replacement norms, and evaluating the producibility of newly designed vehicles. This will diminish by 1995 the labor requirement for vehicle servicing and repair by a third to a half.

To accelerate the resolution of the many branch tasks and problems, NAMI must effect considerable renewal of its experimental base, which lags behind the design services of the leading branch production associations in

availability of modern equipment. Also requiring acceleration is computer-aided vehicle and engine design. There is no doubt that NAMI must intensify its efforts to recruit young specialists, effect more rapid resolution of social development problems, etc. All this will make it possible for the Red Banner institute to labor more, not less, at this stage of its existence, compared to the past 70 years, and play a leading role in the resolution of scientific and technical tasks in the area of motor vehicle design.

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"Avtomobilnaya promyshlennost", 1988

### Concern Over Yelabuga Auto Plant Production Voiced

18290088b Moscow SOTSIALISTICHESKAYA  
INDUSTRIYA in Russian 31 Jan 89 p 1

[Letter to the editors by S. Nechpay in the column:  
"What to Build in Yelabuga"; first paragraph is SOTSIALISTICHESKAYA INDUSTRIYA introduction]

[Text] The letter below, received from a reader in Severodvinsk, will certainly find enthusiastic supporters as well as dyed-in-the-wool opponents. This conclusion is easily reached by reading the vast amount of letters written on the subject of the construction underway in Yelabuga. Some readers are unequivocal in their approval of the automobile plant. S. Nechpay, as we see, disapproves. But he does offer an alternative. Perhaps the question should not be phrased as "either this or that." We all know that people need both items discussed. Would it be wise to consider at the present time how we could produce implements along with motor vehicles at the future Yelabuga firm? Every firm should have no difficulty manufacturing a wide variety of products.

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Passions inflamed by construction of the plant in Yelabuga have cooled somewhat. "Those on top" have arrived at the conclusion that the country has a greater need for automobiles than for tractors, while the "common folk" will go so far as to contribute their own money to support erection of the new plant. However, in spite of all this, and realizing the importance of effecting rapid satisfaction of consumer demand for cars, I still consider the decision to build the Yelabuga plant hasty and ill-conceived. Let me attempt to explain my reasoning.

The press and a large number of specialists speaking on the subject have levelled quite an amount of criticism at new grandiose construction projects. We have had a number of them: the VAZ, BAM, Nechernozemye. A large amount of the people's money has been invested in them. Was this always justified, and were the results what we expected? Take the VAZ, for example. What did we plan to receive and what did we actually receive after it was built? Foreign exchange? Yes, but look at the price. Advanced Western technology? As far as that goes, it is

no longer Western and not even advanced, as we can see by the recent substantial drop in quality of Zhiguli cars. The VAZ is supposed to be a model enterprise. What can be said about the others?

Here we go again. Construction of a tractor plant fell through—so let's build an automobile plant. What was the reason for selecting the new plant's particular capacity—900,000 units a year? Was this supposed to be equivalent to the cost of the tractor plant? Or to the market demand? The demand already exceeds the 1995 production figure. This in itself is ample proof of the haste with which the decision was made. Incidentally, foreign countries have already decided against building such large enterprises. They require large initial investments, are difficult to manage and retool in response to rapid changes in market demands, and bring on ecological difficulties. Why are we ignoring this experience? How much investment of human, material and other resources is required in this kind of construction to build a virtual Tolyatti or Naberezhnyye Chelny?

In this connection, we are presently faced with a more important and pressing task that requires immediate investment of means: providing the country with foodstuffs. A proper decision has been made to accomplish this task—wide use of all forms of renting and family contracts in agriculture. But we still have not thought seriously about satisfying renters' needs.

Small, high-efficiency, and, mainly, reasonably priced, implements, are what the renter needs as much as air to breathe. This includes all kinds of power cultivators, mechanized wagons, farm tools, equipment for primary processing of crops, and others. Our country's low production of this equipment is unwarranted. In 1987, for example, 65,000 power cultivators were produced. Compare that with the 774,000 small implements manufactured in China the same year. The fact is that it was because of wide application of renting in combination with these implements that enabled China to effect a substantial increase in foodstuff production in the last decade.

This is a social as well as economic task. The fact is that the renter's labor has little to say for itself. It is primarily heavy and manual in nature, lasting 12 to 16 hours a day, carried out with the agroindustry bureaucracy looking on disapprovingly, at that. To mechanize it and raise its cultural level means guaranteeing the provision of new capabilities to the rental process. Thus, why not organize the production of small implements at the new Yelabuga plant?

The renter also needs an automobile, of course. We should not forget, however, that the country is still spending billions importing foodstuffs. Much of what we purchase—grain, meat, vegetables—we can and should produce ourselves. Diminution of foodstuff imports would mean clothing, footwear, and furniture. Even advanced technology for future auto plants, in the final analysis.

Now about motorization. The problem has become deeply rooted as a serious social issue. For this reason, it is time to approach it in a more fundamental manner, befitting an issue of state concern. We need a program.

The program could be configured as follows: stage-by-stage construction of several (five or six) medium-capacity automobile plants (producing up to 300,000 vehicles a year) in various areas of the country that afford sufficient human resources. The first stage would consist of building two assembly plants. At the same time, existing enterprises would expand production of major components (engines, axles, transmissions) which would be supplied to the enterprises under construction until the latter commence operating at full capacity. When construction is completed, the new enterprises would become involved with a single base model. In addition to existing auto plants, to supply major components it would be advantageous to employ all resources by: coordinating with enterprises belonging to other branches; building shops and production lines for individual parts; and encouraging participation by cooperative enterprises. This would be entirely possible as enterprises gain a greater degree of independence.

With such an approach, consumers would be enjoying the first cars not later—and possible earlier—than 1995, and by 2005 the branch would attain the level of 3.5 to 3.8 million passenger cars a year.

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## RAIL SYSTEMS

### Rail Ministry Management Style, Problems Examined

18290131 Moscov GUDOK in Russian 14 Mar 89  
pp 1-2

[Unattributed article: "To Manage Skillfully and See the Future"]

[Text] A candid, free exchange of opinions about the course of perestroika took place at the meeting of the party aktiv of the Ministry of Railways. At the center of the attention of its participants was one of the most crucial problems—the problem of further improving the style and methods of work of the central staff of the Ministry of Railways and its personnel policy. A report on this subject was given by the deputy ministry of railways L. I. Pingarev. He recalled that rail transportation plays a most important role in the development of the country's economy and directly influences the state of affairs in all of its branches. This is why the current stage of perestroika requires more resolute measures directed toward stepping up the organizational work of the transportation staff and improving the style and methods of its activity.

In the report and in the speeches of participants in the debates there was serious concern about the fact that, in

spite of the positive change that has been seen in the area of operation of means of transportation and reorganization of the central staff of the Ministry of Railways, in the solutions to personnel and social problems progress is still being impeded by the large burden of unsolved problems.

Because of special, specific conditions the activity of communists in the Ministry of Railways, as we know, goes far beyond the ministry's roof. The successes and failures of workers in the branch are inextricably linked to the organizing role of specialists in the Ministry of Railways who bear the full burden of responsibility for the state of affairs in each area of the multifaceted, complicated transportation work.

This is why the duty of communists consists in mastering to perfection the modern style of work which would organically combine efficiency, high performance, and discipline with enterprisingness and a creative approach to work, bold initiative, and the ability to take responsibility.

At the meeting of the aktiv they expressed the conviction that in the current stage of perestroika exceptional importance is attached to such qualities of the personnel of the branch staff as competence, intolerance of shortcomings, and the ability to rely on the experience and opinion of the labor collectives. Again and again it was emphasized that the style and methods of management activity are called upon to contribute to the adoption of the most rational decisions when planning and predicting the work of the enterprises, complete utilization of existing resources, and efficient management. But there has been no radical change in this direction yet.

The party committee and the party organizations of the administrations and divisions as well as certain managers sometimes exhibit indecisiveness in eliminating habits left over from stagnant times. Rail transportation is not yet fully satisfying the needs of the national economy. It is no secret that last year we failed to fulfill the state order for shipment of timber, chemical and mineral fertilizers, and iron and manganese ore. The ministry continues to receive many complaints from enterprises concerning the tardy and incomplete release of cars, and mainly for coal and petroleum products. In a number of cases the growth rates of expenditures are outstripping the growth rates of the volumes of shipments.

What does this show? First of all that the railroads have not introduced a strict regimen for economizing on operational expenditures and the work for efficient utilization of material resources and monetary funds is slackening off, as a result of which millions of rubles in above-plan profit have been diverted into nonproductive expenditures and losses, which amount to about 200 million rubles a year. The main branch administrations and their party organizations have put these questions out of their purview.

From the podium of the meeting they bitterly discussed the fact that far from everywhere is the proper attention

being devoted to questions of labor organization. The collective, rental, and family contract and intraproduction *khozraschet* are still being introduced extremely slowly. The leaders of the main administrations are slow in dealing with this important issue, which in the final analysis has led in some places to increasing the contingent of workers and caused wages to increase more rapidly than labor productivity. As before, we have not managed to achieve a unified rhythm in operational activity or close interaction among the main administrations, services and management subdivisions in the creation and introduction of intensive comprehensive technology for the shipping process in large areas.

Participants in the meeting gave examples that show that restructuring the work of the central staff under the conditions of the new general plan for management of rail transportation is proceeding extremely slowly and the effectiveness of the influence of branch administrations on the enterprises that have changed over to cost accounting and self-financing is clearly inadequate. Many leaders of ministry subdivisions are operating in the old way, shuffling papers, and are in no hurry to implement previously adopted decisions.

During the past 3 years in the Ministry of Railways they have created an automated dispatcher center for control of the operational work of the railroads. But so far there is no appreciable return from it. Why? Because they have not eliminated the serious shortcomings in providing the dispatcher service with reliable and prompt information about the operational activity of the railroads and have not restructured the work of the center taking into account utilization of the possibilities provided by computer equipment for improving the technology of dispatcher control of the shipping process. The ministry management has been forced to give harsh warnings to the deputy chief of the main administration for shipments, Comrade Chernyugov, and the chief of the main computer center of the Ministry of Railways, Comrade Ivannikov, concerning their personal responsibility for further development and practical implementation of the technology of the ADTsU. But where was the party control? Why did the influence of the local party organizations and the party committee turn out to be ineffective?

During the discussion of the report at the meeting the condition of passenger transportation and the safety of the movement of trains were subjected to in-depth analysis.

It was also noted that mistakes in the activity of the central staff were not slow in showing up along the line—in the growth of cases of mismanagement and the weakening of executive and labor discipline.

Last year the ministry sent out 750,000 various kinds of orders, instructions, telegrams, protocols, and other directive documents. Not only along the line but also in the branch staff itself the specialists, as they say, are inundated

by paperwork and spending time on figuring out the reasons for the failure to fulfill various instructions. A bad practice has developed whereby the administrations when preparing normative documents do not coordinate them with the participating administrations. As a result they publish normative documents that duplicate one another and do not correspond to existing legislation.

A sociological investigation was conducted in the ministry on the eve of the meeting of the party *aktiv*. It convincingly showed the immense resources that lie in more efficient organization of the labor of workers of the Ministry of Railways. They have to spend too much time on conferences, whose effectiveness is given a very low rating. Thus, for example, 62 percent of those questioned expressed the opinion that certain board meetings are ineffective. The same evaluation was given to loudspeaker conferences by 72 percent of those who filled out the questionnaire. It turned out that workers of the Ministry of Railways spend only 10 percent of the work working time on solving strategic problems which are directed toward predicting the development of the branch for the next 5-10 years, and 40 percent of their time goes for immediate solutions to operational problems.

As a result of the sociological investigation it was established that 61 percent of those questioned (and 35 percent were managers) do not know whether or not they are in the personnel reserve. Half of the workers who responded to the questions on the questionnaire said that they did not have much of a chance of being promoted.

At the meeting there was an involved discussion of the role of party organizations of main administrations and all Communists of the ministry in management activity, technical retooling of transportation, and the education of personnel of the Ministry of Railways in the spirit of a high degree of responsibility for *perestroyka*. Serious difficulties were noted in the selection of a new type of manager capable of new thinking. On the mainlines and in the central staff the effectiveness of the personnel reserve is low, and they are timid about advancing young specialists with initiative to management positions. When selecting leaders the ministry have far from always been able to provide for effective influence on this process. They have not yet managed to improve the quality of personnel training in the institutes and *tekhnikums*.

Examples were given in which the moral and material incentives intended to motivate railroad workers to achieve good results in their work have lost their initial significance and been transformed into punitive measures.

This year rail transportation must provide for the shipment of cargo in a volume of no less than 2.479 billion tons, which is included in the state order. This is the minimum which is to be used for orientation. But during the recent meeting of members of the board of the Ministry of Railways and the chiefs of the railroads with Chairman of the USSR Council of Ministers N. I. Ryzhkov they set the task of providing for considerably

larger volumes of shipments than were envisioned by the control figures for 1989. From month to month it will be necessary to increase the rates of transportation work, provide for increased labor productivity, and achieve a reduction of the staff of workers in the railroad network.

In the face of the responsible new tasks the mobilizing role of the party committee of the Ministry of Railways, the party organizations of the branch staff administrations, and all communists becomes extremely important. Their duty is to instill a sense of innovation in personnel, to contribute to extremely smooth operation of the management staff, and to make sure that each ministry specialist provides an example of creative participation in perestroika and work a full force.

The style and methods of management are the most important questions for communists of the Ministry of Railways. The meeting of the party aktiv and its resolution show that communists intend to redouble their efforts to achieve a truly Leninist solution to personnel problems and improvement of the style and methods of all their work.

Speaking at the meeting were Ye. Yershov, V. Skorobogatov, V. Silin, Yu. Golovanov, S. Potapchenko, A. Sushinskaya, V. Ginko, M. Podkolzin, and others.

Reports were heard from the deputy secretary of the party committee of the Ministry of Railways, V. Shubko, the secretary of the party bureau of the Main Railway Administration, V. Smatov, and the secretary of the party bureau of the Main Transportation Administration, M. Avetikyan, concerning the course of fulfillment of the plan of measures of the Ministry of Railways party committee for acting on the critical remarks and proposals made by communists at the 35th conference of the ministry party organization.

#### **USSR Subway Construction, Operations Highlighted**

*18290075a Moscow GUDOK in Russian 1 Jan 89 p 1*

[Article by N. Davydov: "How Many Subways Do We Have?"]

[Text] New subway routes are now being laid in 14 cities in the nation. At 12 of them the subway is already in operation. At the end of this year the Sverdlovsk subway will be the 13th underground route.

Construction of six stations is being completed on the eight-kilometer route. The work rates will increase every day. After all, the set of facilities turned over includes not only the stations and the tunnels on the route, but also the electric engine house, the engineering wing and the approach tracks.

Four new sections with ten stations are to be put into operation in Moscow before the end of the year. The longest of them—from Savelovskoy, which is beginning

operation, to the Otradnoye Station—rushes to the northwest of the capital. It is 8.6 kilometers long. The Kirovsko-Frunzenskaya, Kaluzhsko-Rizhskaya and Filevskaya lines will also be extended. Underground rails go to Cherkizovo, Krylatskoye and the Bittsevs Park zone. As a result, the total length of the subway lines in Moscow is 240 kilometers, and there are 148 subway stations.

The geography of the underground yards and tunnels being readied for turnover is extensive. At the end of the year, residents of new areas in Baku and Gorkiy, Kiev and Tashkent will be able to enjoy the services of the fastest and most convenient type of urban transport. True, in each of these cities, so far only two-three new stations each have appeared, but the importance of these lines can hardly be overestimated. For example, in Gorkiy the subway helps thousands to arrive at work more quickly than the motor vehicle drivers.

Of course, to implement the program outlined for the subways, work must be stepped-up throughout the entire year. After all, according to the old tradition, operation launching is outlined for the second half of December almost everywhere. As a result, by the beginning of 1990, the total length of operating subway routes in the nation will increase by 37 kilometers and will exceed the 1.5 thousand mark.

There is another noteworthy detail. This year subway construction is beginning in two other cities—Omsk and Alma-Ata. This means that by the end of the next five-year plan, the inhabitants of 16 cities in the nation will enjoy the services of the most comfortable type of transport.

#### **Riga Conference Examines Baltic RR Operations** *18290075b Riga SOVETSKAYA LATVIYA in Russian* *20 Dec 88 p 2*

[Article by V. Kabanov, engineer: "A Sober Estimate, and No Emotions"]

[Text] At the Conference of Specialists of the Lithuanian, Latvian and Estonian SSR, which took place in Riga on 21-23 September of this year, basic principles for republic cost accounting were worked out and adopted, in accordance with which the enterprises and transport networks located on the territory of the republic should be transferred to its own ownership. Union jurisdiction over the transport enterprises is in this case rescinded.

Is it possible for the railroads to function within the structure of the individual republics, particularly the Lithuanian, Latvian and Estonian SSR? This question, it would appear, can be answered in the affirmative. After all, there is experience in the work of the railroads of the Baltic republics in the 1920's and 1930's, as well as of the countries of Central and Western Europe. In these cases, the interrelations between neighboring railroads is regulated by contracts and agreements, as for example,

according to common rates and distribution of revenues obtained for freight transport. Payment is established for combined use of cars and locomotives, rendering of reciprocal services, etc.

Railroad transport takes up land, uses resources and affects the ecology of a region. Railroad workers use the services and other goods on an equal footing with all the other inhabitants of the city, region and republic. At the same time, railroads not only provide for local transport needs, but also participate in republic, regional, all-state and international exchange of commodities. Therefore, not only the inhabitants of a specific locality are interested in their values, preservation and normal functioning, but also society as a whole.

Under the conditions of republic cost accounting, the mutual interests of a specific territory and railroad transport organizations can be satisfied on the basis of fair taxation, payment for the use of resources and payments to the local budget. In this case, both the territorial organs, individual enterprises and transport organizations, just as the entire national economy of the republic and the nation, will be interested to an equal degree in increasing the revenues and profitability of transport. Artificially breaking up the common railroad network of the country into individual roads under republic jurisdiction will cause a multitude of difficulties in their operation.

Since 1963, the railroads of the Baltic republics, including Kaliningrad Oblast, have been operating as a unified Baltic Railroad, including the countries in a common network. Common administrative organs, production capacities for repair and development of facilities of the region served, with division of labor, specialization and cooperation were formed, and a common road transport technology was made up. For example, the service of passenger trains throughout the entire road (except for the urban traffic, which was carried out by electric and diesel trains) is performed by locomotives of the Zasu-laukus Depot, located in Riga. The Daugavpilis Depot carries out major types of repair for freight locomotives, and the Tapa Depot is concerned with shunting diesel locomotives. The Vilnius division prepares cars for transporting cattle and other livestock in the Daugavpilis division. The rail machine station of the Kaliningrad division performs major track repair in Lithuania and, in conjunction with its colleagues from Latvia, in Estonia. The list of reciprocal services rendered by the railroad workers of the Baltic republics can be continued even further.

Transport of local traffic constitutes only 36 percent of the total volume of railroad work. In Latvia, freight to recipients located in the republic constitutes 43-48 percent, in Lithuania—50-52 percent and in Estonia—45-50 percent. To ensure product dispatch, a consignment of empty closed cars and gondolas is sent to Estonia from Lithuania and Latvia. The needs of the

Lithuanian SSR for rolling refrigerator stock are provided for by a consignment of it from the Oktyabr Railroad through Estonia and Latvia, etc. That is, there is a constant process of exchange of the car fleet, not only among neighbors, but also on a countrywide scale. Therefore, posing the question of transferring the fleet of rolling stock to ownership of an individual republic (as, for example, was determined by the concept of republic cost accounting of the Estonian SSR) under the conditions of inter-republic and international division of labor appears absolutely against contemporary practice. It contradicts the world trend in transport development.

In the countries of the Socialist camp, in Western Europe and on the American continent, a common fleet of freight cars and containers is becoming increasingly important. The process of traffic integration and internationalization is being put into practice. In Western Europe a program has been adopted directed toward eliminating, in the next few years, the last interstate barriers, including customs.

Converting railroads to the jurisdiction of individual republics requires that an entire complex of transport development be created in each of them. This will lead, in addition, to the need for large nonproductive capital investments and to a further increase in the number of workers. Today the relative proportion of representatives of the native ethnic group in the total number of railroad transport workers is 26 percent in Latvia, 22.4 percent in Estonia and 51.6 percent in Lithuania. Under the conditions of the lack of prestige in this occupation among the indigenous population, this reorganization of the railroads requires that an additional contingent of specialists be drawn in from beyond the borders of the republics, which contradicts the demographic program adopted in the provinces.

Given today's rates of freight and passenger transport, segmentation of the common network into individual roads under republic jurisdiction leads to their appearing unprofitable and can operate only if they are allotted subsidies from the local budget. According to the accounting data for 1987, the losses from passenger transport in suburban service alone constituted about 25 million rubles for the road, including 7.4 million for the Latvian SSR. Under the conditions of republic cost accounting, the railroad sections within the boundaries of Estonia and Lithuania do not ensure reproduction, and in Latvia they will be on the brink of unprofitability.

On the whole, the Baltic Railroad, even in consideration of using a heightened coefficient when distributing revenues from freight transport (this is actually the grant of the ministry) forms the funds for production and social development in considerably smaller amounts than is required for technical re-equipment and the social sphere. In this case, the supply of rolling stock, many types of machines and equipment and construction of

second tracks are being paid for through the centralized financing sources of the Ministry of Railways and the State budget.

What conclusion can be drawn from all this? It would be more expedient to implement the transition to principles of regional republic cost accounting while retaining the unity of the transport network. This corresponds to the world trends and practice of railroad work. This approach does not contradict the concept of republic cost accounting, in which, on republic territory, at the same time as its ownership, enterprises based on ownership of interrepublic, all-union and international joint stock companies, societies and other organizations can operate and be newly created. The relations between the republic and the railroad transport enterprises, however, should undoubtedly be constructed on a cost accounting basis. Scholars, economists and specialists in transport must be drawn into working out this problem. Not only emotion can be relied upon in this matter. Sober calculation is required.

**Poor Performance on Krasnoyarsk RR Noted**  
*18290061b Moscow GUDOK in Russian 24 Dec 88 p 1*

[Article by V. Kustov, GUDOK correspondent, under "The Main Lines at Year's End" rubric: "Krasnoyarsk Railroad: Losses Measured Five Ways"]

[Text] Krasnoyarsk—Having failed to fulfill the 11-months' plan, the Krasnoyarsk Railroad was 20,595 railcars behind in coal shipments and 31,622 cars behind for timber shipments. An especially troublesome situation has developed on the Krasnoyarsk Division.

The quickest and simplest explanation for this is the shortage of loading resources.

Every day this railroad loads 5,300 railcars and unloads roughly 4,000. The 4,000 belong to the railroad. They are the center of a major brouhaha, since the turnaround time during freight-handling operations on enterprise sidings has increased by 0.36 hours.

On the Krasnoyarsk Division the electric power plant, the Tadzhik Timber Procurement Establishment, the yeast plant and the Krasnoyarskryba Association are notoriously sluggish. Nor are the other clients too efficient. Some 200 railcars stood idle all through October, while inside them hundreds of tons of grapes, onions, watermelons and muskmelons rotted. The present records for sluggishness are held by Krasnoyarskagropromkimiya [Krasnoyarsk Agro-industrial Chemical Production Association], which delays 25-30 railcars every day, or more than half of the number arriving there. We can take this dismal statistic as far as we please. But let's take a look and see what the problem is here.

In order to more clearly show which junctions are least coordinated and suffering the greatest losses, let us follow one railroad car from the very beginning. Here it

is, filled with fruit, fish or equipment, and approaches Krasnoyarsk Station so as to board the ferry in Bugach. This is not a small station and has the usual run of problems. We can use it as an example for tracing our way back to almost all the flaws.

Do they know in Bugach when a railroad car will be arriving there? They used to. The Krasnoyarsk Division information clerk notified them of these things. But they cut his working hours (this was possibly one of the many hasty decisions made during the changeover to the Belorussian method of operation). These days, Bugach finds out about freight arrivals and informs the client after the railcar is already at the station. If the railcar shows up during the day, there is a chance that the enterprise can be called. It is much more difficult to do so in the evening, since the information clerk will have gone home. Before the freight superintendent shows up, our railcar usually stands idle 3-4 hours at best and at worst—about 24 hours.

Faulty information about the arrival of rolling stock at the Krasnoyarsk Station is a chronic malady. How much are we losing because of the railroad junction's poor communications with its clientele?

"It has already been decided to put new sidings into operation, only with information communications systems," says Chief Krasnoyarsk Railroad Engineer V. Boldyrev assuringly. "But this takes a lot of time and resources. Construction of a computer center will not begin until next year."

The computer center is one of the main tasks making up the railroad's technical policy. But it isn't in place yet, and we need to find other ways to obtain better information.

"Something needs to be done just to bring order into this situation," reasons O. Yakhina, chief of Bugach Station. "For example, the wheel report which goes into the computer should show all the codes, including the freight consignee, which isn't included. As a result, when we inquire about incoming freight, all we get is the railcar number."

Our railcar's problems begin on the sidings. The Krasnoyarsk Railroad has at its disposal 450 km of track along which railcars travel to their unloading destinations. Client enterprises have still more km of track. They became decrepit long ago and need to be repaired and renovated. Almost all the track switches at Bugach Station are operated manually, which greatly slows down shunting operations and is one of the causes of protracted railcar turnaround time.

The railcar jolts and plunges along the rough track and leaves the rails. The railroad under discussion has had 24 derailments in 10 months. And Yu. Dikov, running safety inspector, was embarrassed to say how many occurred on the clients' tracks. However, it is no secret that industrial enterprises were to blame for 179 derailments.

It has become a tradition in Krasnoyarsk that the development of the track economy is out of touch with that of the enterprises themselves. For example, a truck trailer plant was built long ago and the well-planned renovation of the Bazaikha Station, which was associated with this construction project, has still not been carried out. Of almost R3 million allocated for the first phase, the Krasnoyarsktransstroy Trust used only R186,000.

The situation at Korkino Station is even more dramatic. Because of a damaged subgrade, the Rosbakaleya Freight Depot was recently unable to unload its cargoes for three days. The Korkino Station's freight turnover has increased 10-fold in ten years, and the track economy has lagged so much that it is still like it was in the 1960's. How many duplicate documents pertaining to renovating the station were destroyed; how many empty words were spoken!

But let's continue following our railcar. The client has been told that his freight is here and has arrived. But can he immediately take possession of his goods with no delays? Not always. Because the freight yard is far from always being equal to the task of handling this volume of freight. And freight traffic keeps increasing.

In due time, after having considered this situation, the CPSU kraykom and krayispolkom made provision for expanding their loading and unloading facilities in a comprehensive plan of measures for Krasnoyarsk Kray administrations, associations and enterprises to expand industrial railroad transport and improve the efficiency with which railcars and containers are used. It is not as though the plan has been cancelled, but the intended expansion, alas, is not being carried out. These days, only a few less than 40 of Krasnoyarsk's depots can boast of having excellent unloading capabilities.

And this is not surprising: not only have loading and unloading facilities not increased, but their number is actually declining. For example, The Krasnoyarsk Synthetic Rubber Plant tore up its tracks and used the area to erect a warehouse. Now they can unload only one freight car at a time, instead of four. As many as 50 freight cars have begun accumulating in the plant yard. Unable to manage without having the same freedom as Bugach, the Rosbakaleya depot in Kansk tore up its tracks, too. The Krasnoyarsk Meat-Packing Plant took its loading-unloading facility, which could handle a five-car section, took it apart to build a sausage-making shop right on the site of the ramp and began constructing warehouses in the dead-end area.

As soon as the subject of repair came up, the Krasnoyarskryba [Krasnoyarsk Fish-Farming] Association freight depot abandoned its tracks with the support of Minrybkhhoz [Ministry of the Fish Industry].

"We are losing a lot of time because of the crush at the loading and unloading facility," admits G. Ovsyaninkov, chief of the Krasnoyarsk Division's Container Traffic Department.

Here is a figure which will corroborate these words: of the 485 enterprises with which the Krasnoyarsk Railroad does business, only 65 meet the norms for turnaround time.

The railroad has no efficient means for cleaning freight cars. And with the onset of winter there is a crying need for this equipment. Last winter at Zaozernaya Station a profusion of freight cars accumulated with frozen cargoes. They had to be taken tens and hundreds of km to Uyar, Achinsk and Ilanskaya to be cleaned. How many operational personnel were taken from their jobs for this and what a colossal delay of loading resources!

And nowadays? The railroad's technical-design bureau is developing a special device for breaking up frozen coal and cement. Will it be available soon? The point is, the first signs of frozen loads are appearing.

Thus, there are four primary reasons for, and four ways to measure the losses of unloading time: unsatisfactory information about the arrival of freight cars, poor track conditions, the crush at the unloading yards and the lack of reliable means of mechanization. But there is another measurement—the fifth and most important: the human factor and the organization—and the wages—related to it.

Only 25 percent of the unloading work performed at Krasnoyarsk Station is done at night. What's more, only one-fifth of the total turnaround time is directly used to unload rolling stock.

First the freight car is stuck at the Bugach warehouse where it gets in the way of the other cars arriving at the unloading dock. It stands there one hour, two, three hours...up to seven hours instead of the four hours prescribed by the norm. By the way, Bugach has never met the overall turnaround-time norm: instead of 20 hours it now takes 31 hours. But now begins the coupling and waiting for the train locomotive from Krasnoyarsk, which is not so easy to manage. More losses are built in to the very methods used to handle the cars. This is where the habit of delaying, lack of discipline and at times brazen irresponsibility come into play.

This is how it happens: at the loading-unloading operations subdivision there are the loaders; at the station—the acceptance and transfer officers. Without the former, the work doesn't get done; without the latter, the same thing happens. The Achinsk Division in Marinsk decided to unite the load-handlers and acceptance and transfer officers into a single collective headed by the station chief. And, as you can well imagine, the results improved markedly.

Here is another example. Having introduced cost-accounting elements, V. Lukanin, chief of the Achinsk

Mechanized Subdivision for Loading and Unloading Operations, was soon convinced that he could carry out a greater volume of work with the least number of personnel. Labor productivity increased and wages began increasing as well. And what is typical is that no complaints started up about the cranes and other mechanisms operating poorly. They work smoothly because their operators are better trained than their counterparts in Krasnoyarsk.

One of the shifts at Achinsk has changed over to the brigade contract. The brigade includes the shunting dispatcher, station controllers, hump foremen and yardmasters. Their indicators for turnaround and for the number of railcars dispatched from the station have improved. All this once again shows that advanced labor organization

and economic levers work better than issuing directives and orders and selectively dressing people down.

In general, we have a lot to think about and to work on. Although a station chief can think as much as he pleases, he is far from always being in a position to change anything. This is a case of the one with the most rights—the railroad division—being right. What a shame.

It probably makes sense for the clients to start using the brigade contract as well. They had to pay the railroad R10 million in penalties this year. As the saying goes, their money went down the drain and time was wasted. And had this amount not been paid to the railroad, would it have gone into the workmen's pockets? They would probably have had to account for every spare ruble.

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