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ECONOMIC AFFAIRS

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ECONOMIC POLICY, ORGANIZATION AND MANAGEMENT

ABALKIN DISCUSSES SYSTEM, PRACTICE OF MANAGEMENT

Moscow PLANOVYE KHOZYAYSTVO in Russian No 8, Aug 82, pp 14-23

[Article by L. Abalkin, doctor of economic sciences and professor: "Urgent Problems of Improving the Mechanism and Practice of Management"; passages rendered in all capital letters printed in boldface in source]

[Text] The current stage of public development, which is characterized by profound qualitative transformations in the reproductive pattern of the Soviet economy, puts in the forefront the task of substantially improving the economic mechanism and raising it to a new higher stage. Correct understanding of the necessity and principal directions for its improvement and the practical solution of pressing problems require clarity in theoretical matters.

The economic mechanism of socialist society is a means of organizing economic life according to plan, the sum total of forms and methods of influence on the development of public production and utilization of objective economic laws. By reorganizing the forms and methods of management and the organization of economic activity, the society has the opportunity to improve production relations. The necessary prerequisites are thereby established for the steady development of productive forces, mastery of the achievements of modern science and technology, and an increase in production efficiency.

Important theoretical generalizations on these matters, which far exceed the limits of a solution to the food problem, are contained in the materials of the May (1982) Plenum of the CPSU Central Committee. It was emphasized at the plenum that further development of the productive forces of agriculture and an increase in capacities of the processing industry is only one side of the matter. "Another, no less important side is improvement in production relations. Methods of administration and planning, ways of providing incentive, and the mechanism of management must establish the conditions for highly productive labor."¹

This is why realization of the goals of the party's socioeconomic policy and the consistent transfer of the economy onto the tracks of intensive development depend to a decisive extent on the quality and efficiency of the economic

mechanism, on its conformity with the current scope of production and the requirements of the scientific and technical revolution. Improvement in the economic mechanism is an essential condition for mastery of the richest resources and advantages of the economy of developed socialism.

With the increase in the scope of the national economy and the complexity of economic relations, the role of organizational and economic factors in developing public production and increasing its efficiency is becoming stronger as a natural result. This makes new, constantly increasing demands on the scientific validity of economic decisions, the quality and balancing of plans, the selection of economic levers and improvement in the pattern of administration, on all parts of the economic mechanism.

The varied and complex problems of forming an economic mechanism which corresponds to the conditions of a developed socialist society are at the center of attention of the party and its central committee. In just the past 3 years a number of fundamental decisions have been made which open a new stage in improvement of the mechanism and methods of socialist management.

A beginning was made by the CPSU Central Committee decree "On further improvement of the economic mechanism and the tasks of party and state organs" and the CPSU Central Committee and USSR Council of Ministers decree "On improving planning and reinforcing the influence of the economic mechanism on increasing production efficiency and work quality," approved in July 1979. The combination of actions outlined in them were aimed at raising the level of planning and management, bringing them into conformity with requirements of the stage of developed socialism, achieving a significant increase in the efficiency of public production, accelerating scientific and technical progress and an increase in labor productivity, and improving product quality, and on this basis, at ensuring a steady rise in the country's economy and the welfare of the Soviet people.

Basic directions in improving planned work at all levels in the management of agricultural production were defined in the CPSU Central Committee and USSR Council of Ministers decree "On improving the planning and economic stimulation of the production and procurements of agricultural products," approved in November 1980.

The 26th CPSU Congress pointed out the necessity of consistently putting into practice the decisions made to improve the economic mechanism, emphasizing that there are no excuses for sluggishness and lethargy in this matter. At the same time, the task of going further, of resolving problems which had accumulated, was undertaken. Particular attention was devoted at the congress to improving planning and increasing its scientific validity and effectiveness, to reinforcement of plan discipline. Delivering the report, L. I. Brezhnev noted that the plan is a law. "And not just because it is approved by the Supreme Soviet. The plan is a law because only its observance ensures the coordinated work of the national economy. Let us speak bluntly: this obvious truth has started to be forgotten. The practice of amending plans to reduce them has assumed a broad scope. Such a practice disorganizes the economy, corrupts personnel, and trains them to be irresponsible."²

At the CPSU Central Committee Plenum held in November 1981, solution of problems connected with improving management of the economy and the economic mechanism was called an integral part of the party's political and theoretical work. It was noted at the Plenum that the economy is not standing still; it is growing, and the system of intersectorial and intrasectorial relations is becoming complex. For this reason, coordination of the work of all sections of the national economy is becoming a more and more important condition for the economy's effectiveness. At the same time, it was emphasized that the decrees approved to improve the economic mechanism are being incorporated slowly and in a halfway manner.

The "Food program of the USSR for the period up to 1990 and measures for its realization," approved by the May (1982) Plenum of the CPSU Central Committee, signifies a major landmark in further improvement of the economic mechanism. "The preparation and implementation of such a program is essentially a new step in the system of our planning, in management of the socialist economy."³

In the decisions reached, a specific and detailed system of measures was defined which cover the important directions for improving the economic mechanism in the current stage. Their implementation is a major economic and political task which requires the efforts of employees of planning and economic organs, production managers and specialists, and all labor collectives. At the same time, the party documents of recent years contain important generalizations and lines which in the aggregate form the concept of further improvement in the economic mechanism and raising it to a qualitatively new stage. The most important provisions of this concept are examined below.

FIRST. Planning is the core of the economic mechanism, the main instrument for realization of the party's economic policy. Raising the scientific level of planning and achieving full, efficient balancing of plans are essential conditions for the effectiveness of all elements of the economic mechanism. Neither changes in organizational patterns nor reorganization of economic levers are able to produce the expected results without these basic conditions. But the plan, which is a link (even though it is the most important one, it is still just a link) in the economic mechanism, can ensure acceleration of the rate of socioeconomic progress and an increase in production efficiency only in combination with improvement in the entire sum total of organizational and economic forms, methods and incentives.

The main requirements of planning were defined in the decrees on problems of the economic mechanism approved in recent years:

full and effective balancing of plans at all levels, including establishment of material and financial reserves, as well as reserves of production capacities with the aim of coordinated, uninterrupted functioning of production, deepening of its specialization and acceleration of scientific and technical progress;

an increase in the authority and organizing role of the five-year plan, elimination of the plurality of plans and the practice of their unjustified amendment, and decisive reinforcement of plan discipline;

reinforcement of the special-purpose orientation of plans, their orientation toward achieving national economic end results, and improvement on this basis of the methodology of planning, and effective combination of sectorial, territorial, and program and special-purpose planning; and

strengthening the normative base of planning as a necessary condition for the transition to systematic management of an increase in production efficiency, and broad utilization of long-range economic norms in planning.

SECOND. The question regarding that element toward which the entire economic mechanism and the entire system of management must be aimed to ensure its efficient operation has been resolved in principle. This is the basic component of the national economy (but by no means of the structure of management) within which the process of production is carried out, resources are utilized, and material wealth is produced, the necessary and surplus product is created, and labor collectives are formed and function. "The basic production units under our conditions," L. I. Brezhnev said at the November (1981) Plenum of the CPSU Central Committee, "are enterprises and associations. This means that all organs of management, the entire economic mechanism, have been called upon to promote their better operation."⁴

The practice under which enterprises which operate well and those which operate poorly are placed in equal conditions and the former's position is harmed by this was sharply criticized at the Plenum. This principled position in relation to agricultural enterprises was once again confirmed and given concrete expression by the May (1982) Plenum of the CPSU Central Committee. "It is necessary to decisively eliminate high-handed action and petty tutelage in relation to kolkhozes and sovkhozes, which rightfully may be called the foundation of all agricultural production. Anyone must be forbidden to demand that they fulfill any tasks not stipulated by the state plan and to ask for information except what has been established by state reporting. This rule must be strictly followed at all levels and no exceptions to it should be made."⁵

Naturally, clarity in the matter cited is exceptionally important for all subsequent work to improve the economic mechanism. The main direction of this work is activation of economic methods of management, decisive reinforcement of cost accounting, and establishment of stable economic conditions for a genuine, not a formal, cost accounting of production associations, enterprises, kolkhozes and sovkhozes.

The important ways of improving cost accounting relationships in the current stage are:

development and reinforcement of cost accounting in the basic production element of the national economy on the basis of targets of the five-year plan and long-range economic norms;

consistent orientation of cost accounting levers and incentives toward utilization of intensive factors of growth, toward increasing the effectiveness of labor, material, natural and financial resources; and

introduction of a system of guaranteed increase in economic incentive, dependent upon improvement in the end results of labor collectives' economic activity, and reinforcement of the unity of economic incentive and responsibility.

Finally, THIRD. All the party documents consistently adhere to the idea that it is necessary to stimulate the creative initiative of the masses, to develop democratic principles in the management of production. At the same time, these problems are being raised and resolved in a broad sociopolitical aspect, far exceeding the limits of expansion of the rights of labor collectives and the independence of enterprises.

Further democratization of the system of planned management fully corresponds to the deep-seated nature of the socialist system and the program lines of the party. Under current conditions it is a powerful and constantly functioning factor in accelerating socioeconomic progress, the search for and mobilization of reserves of efficiency, and in the struggle against subjectivism, bureaucratism and mismanagement.

Molding a managerial sense in one's own labor collective and on a nationwide scale assumes decisive importance. Only on such a basis can the economy be made really economical and radical consolidation of labor, technological and plan discipline be achieved. Expansion of publicity in the discussion and acceptance of economic decisions, reinforcement of the accountability of planning and management organs, strict observance of economic legislation, and overcoming formalism in the organization of cost accounting are necessary for this.

Together with the search for and development of practical measures, complete clarity is necessary with regard to their fundamental direction. The development and reinforcement of democratic principles in management--this is not a slogan and not a campaign, but the main direction to improvement of the economic mechanism. And increasing its effectiveness and efficiency depends directly on progress in the democratization of management of the economy.

The three fundamental requirements and directions named here for improving the economic mechanism are united organically and mutually supplement and enrich each other. For this reason, overall, coordinated measures are needed; both the next, the immediate, tasks and those more remote and long-range must be seen. Among the former, the full, timely and overall introduction of developed and approved measures to improve the economic mechanism assumes decisive importance. This is important for many reasons, mainly because it is impossible to take new steps without having consolidated the approaches that already have been worked out and approved.

Sluggishness and halfway measures in implementing decisions made not only holds back an increase in production efficiency, but also adversely affects the attitude of economic personnel toward the measures stipulated. The habit of working "in the old way," essentially changing nothing either in the organization of planned work or in the system of operational relations and economic levers, is reinforced. Moreover, such an attitude is involuntarily spread to new steps as well, presenting a serious obstacle to improvement of the economic mechanism.

A feature of the measures stipulated in the CPSU Central Committee and USSR Council of Ministers decree "On improving the planning and reinforcing the influence of the economic mechanism on increasing production efficiency and work quality" is that they are based on the concept of a stable and fully balanced five-year plan. Drafting such a plan is the central link in improvement of the economic mechanism and an indispensable condition for the introduction and effectiveness of remaining measures.

This condition predetermines the nature of work on the 12th Five-Year Plan for economic and social development, which has been called upon to carry out the lines worked out by the party to the full extent. Full and effective balancing of the plan on the basis of careful determination of priority directions, a system of progressive technical and economic norms and standards, and establishment of the necessary reserves are the main way to improve the economic mechanism in the current stage. As part of and on the basis of the five-year plan, we are confronted with determining long-range economic standards and limits, on the base of which organization of cost accounting and evaluation of the end results of the activity of production enterprises and associations are carried out.

What has been said does not mean at all that solution of urgent tasks should be postponed. Much can and should be carried out in the near future. In particular, we are faced with making changes in plan indicators, including natural ones, consistently aiming them at high end results; with shifting to evaluation of the fulfillment of a plan with an increasing sum; and with eliminating discrepancies in evaluation of plan fulfillment and results of socialist competition in the sectorial and territorial aspects. Quite a number of opportunities also exist for improving wages and reinforcing the policy of thrift.

Difficulties encountered on the path to achieving full balance and stability of plans, as well as shortcomings in the drafting of long-range plans, may give rise to the notion that balancing our plans to the full extent is impossible in practice, that their stability is difficult to bring about. It appears that this is a highly dangerous error. Full and effective balancing of the economy is not only the desire, but the objective conformity to principle of socialist expanded reproduction.⁶ Incomplete balancing of plans is a consequence of nonobservance of the planning and management of this objective conformity to principle, and thereby, a manifestation of subjectivism in planned management of the economy, particularly by the application of amendments to plan targets.

And the plan itself which does not ensure real balancing of the economy, that is, balancing in which the true state of affairs is taken into account, loses the quality of a scientifically valid plan, which is a guide to action and instructions. The faulty practice of unjustified amendment of plans and the weakening of plan discipline can be overcome only by substantial improvement in the quality of planning itself, by decisive improvement in the balancing of proportions and targets of the plan at all levels, and by careful organization of plan fulfillment. "The plan, absolutely, should be workable and balanced,"⁷ --this is the party's requirement.

Full balancing of plans, including establishment of the necessary reserves, is an important condition for their stability. But it is the most important prerequisite for rapid rates of scientific and technical progress, consistent deepening of production specialization and the increase in its efficiency. Not one of these tasks can be resolved if economic managers at all levels--from the enterprise to the ministry--lack a firm perspective of activity for a minimum of 5 years.

Of no less importance in ensuring the stability of plans is the rejection of superfluous detail. It may be maintained with sufficient grounds that the more detail in which a plan for a sector and enterprise has been drafted, the greater the extent to which it has been subjected to changes and amendments. Simple expansion of the range of problems being resolved in a centralized manner and the number of balances drafted cannot compensate for discrepancies in the most important national economic proportions. In addition, striving to cover by centralized regulation an ever broader range of economic processes is at variance with the real complexity and increase in diversity of economic relations.

Not the striving to cover everything without exception, but a thoroughly scientific and realistic determination of the main proportions of expanded reproduction reflecting the requirement for intensive development of the economy--this is the way to achieve the balancing and stability of plans. This also includes the objectively necessary reinforcement of the role of centralized planning.

Among the immediate and urgent tasks is completion of work on the economic mechanism for the functioning of the basic element of the national economy--production enterprises and associations. As is well known, the decisions made recognize the necessity of providing for development of cost accounting in production associations (at enterprises) and in construction and installation organizations on the basis of targets of the five-year plan and long-range economic norms, which guarantee an increase in the resources retained for their disposal, depending on improvement in the end results of economic activity when there is a simultaneous increase in the assignment of funds in the state budget.⁸

For the present, it is still early to talk about full introduction of the requirements indicated in the activity of every primary economic unit. At the same time, it is important to accumulate experience in the functioning of production enterprises and associations under the conditions of a stable plan which has been consolidated by a limited range of indicators and broad application of long-range economic norms. Such experience has been limited, inasmuch as even in sectors where many economic norms are utilized, they have not, as a rule, been carried through to the basic production unit. For this reason, it is advisable to shift a number of production enterprises and associations of different sectors of industry and capital construction to the principles indicated during the 1983-1985 period, even if as an experiment. This will make it possible to establish the necessary stockpile for a broad, possibly general transition to the new principles of planning and cost accounting stimulation in the 12th Five-Year Plan.

At the same time that the outlined measures are realized, a continuing and purposeful search for ways to further improve the economic mechanism is necessary. It is important to correctly distribute forces and attention and to clearly define the stages and sequence of the work. In our view, separation in the economic mechanism of the three forms of its existence and manifestation will assist this.⁹ This refers to a theoretical model (concept) of the economic mechanism; a normative economic mechanism, consolidated in the corresponding political and legal acts, statutes, regulations and other documents; and an actually functioning economic mechanism in all the richness and diversity of its specific forms.

THE THEORETICAL MODEL OF THE ECONOMIC MECHANISM is developed on the basis of analysis of the system of economic laws of socialism and the features of their operation in one historical stage or another. It reflects the socioeconomic tasks advanced by the party which face society, and represents the form of a desired and objectively conditioned mechanism of management. It is made up strictly of the concept of an economic mechanism (the sum total of its most common political and economic parameters) and the characteristics of its most important features and structure, including more specific ideas about the system of plans and plan indicators, about the organization of economic relations, methods of management, and economic levers and incentives.

The theoretical model of the economic mechanism has been called upon to anticipate its future condition. The recommendations worked out in conformity with it, as a rule, cannot be carried out immediately; for this reason, the analysis of successive stages in improvement of the economic mechanism should become an important element of the model. In our opinion, the theoretical model of the economic mechanism should be formed in a system of long-range socioeconomic forecasts and serve as the basis for preparing and approving solutions for its improvement. The matter of the advisability of an alternative drafting of such a model is worthy of attention.

THE NORMATIVE ECONOMIC MECHANISM is consolidated in the system of political, state-legal and departmental laws, statutes and regulations. They characterize the process of drafting and approval of plans, the system of instructionally approved indicators, the procedure of forming and distributing income, and criteria for evaluating the results of economic activity and economic incentives for labor collectives and employees. This mechanism represents a distinctive translation into the language of practical experience of certain ideas about the tasks and requirements of the mechanism and methods of socialist management under given specific-historical conditions. Unlike the theoretical model, the normative economic mechanism requires more specificity and careful accounting of the many peculiarities of different sectors and regions; it is incompatible with lack of understanding and vagueness.

Ensuring the theoretical and methodological unity of all parts of the normative economic mechanism presents considerable complexity. It is especially important that many of its elements are determined by sectorial and departmental documents, and the absence of unified management and supervision may lead to imbalance both among the elements cited as well as between them and the overall requirements of the economic mechanism.

THE ACTUALLY FUNCTIONING ECONOMIC MECHANISM is a workably operating system of the forms and methods of organization of economic life, with the aid of which the adjustment of public production is carried out. It may (under definite circumstances very substantially) differ from the normative mechanism. There are different reasons for this: both the imperfection and incompleteness of normative documents as well as the different deviations caused by the predominance of departmental or seniority interests. A considerable role also is played by objective factors which at times make the application in practice of certain indicators and economic levers impossible.

Experience of many years in improving the economic mechanism attests to the possibility of serious deviations of the actual economic mechanism from the normative one. This experience requires thorough analysis to demonstrate the extent to which the deviations cited were caused by imperfection of the normative economic mechanism itself and to what extent by the inadequate scope of work on organizing full and consistent implementation of the decisions reached.

Unquestionably, these and other causes are having an effect. This makes necessary continuing improvement in the specific elements of the economic mechanism (while retaining its fundamental bases) which would practically respond to the lessons of its introduction. However, efficient organization of work aimed at overall and full implementation of the measures stipulated assumes decisive importance.

Differentiation of the forms of existence and manifestation of the economic mechanism which have been mentioned makes it possible to more clearly present the practical tasks confronting us in a given field. This concerns primarily the concentration of efforts of scientific thinking on the formation of a long-range theoretical model of an economic mechanism; drafting of

specific proposals for improving the economic mechanism oriented toward bringing it closer to the model that is desired and that responds to urgent requirements; and introduction of drafted proposals, tightening actually existing forms and methods of economic management up to the level of the normative model. The problems which arise in the shift from one stage (form) of improving the economic mechanism to another are particularly crucial and complex.

In examining long-range, perspective problems in improving the economic mechanism, the presence or absence of conditions needed for this and the necessity of preparing them should be taken into account. The problem cited, in spite of its exceptional importance, has been inadequately analyzed. The essence of the problem lies in the fact that in order to introduce one economic mechanism or another, the appropriate conditions of the project itself are necessary. It is possible, for example, to draft and propose a sufficiently perfected model of an economic mechanism, fully guided by socialist principles and oriented toward high rates and quality of economic growth. However, this does not mean a real opportunity for its introduction, especially immediately. The level of the economy's development, the status of reproductive processes and other conditions may not make it possible to practically apply this model. For specific conditions, a different mechanism, although less perfected than the ideal model, but which more fully responds to the features of the given stage of development, may appear more effective and efficient.

A fundamental requirement for an economic mechanism such as the necessity of ensuring its adequacy for specific social conditions is conditioned by this. In the most common form, the requirement for adequacy appears as criteria in the selection of certain forms and methods of management: they should correspond to the nature of the socialist system and the character of social property for the means of production.

However, there is little of this. The limits mentioned accommodate a broad range of possible variations in building an economic mechanism. And each time a problem arises in achieving conformity of the forms and methods of management to the specific-historical conditions of the country's development. Ensuring such conformity (adequacy) is a mandatory condition for the successful development of production and a steady increase in its efficiency.

The completeness by which the highest target of socialist production is realized, and the coordination of economic interests and increased efficiency of public production which reflects a saving in work time attest to the adequacy of the economic mechanism for specific-historical conditions. The more successfully these tasks are resolved, the more completely requirements of the law on time savings are carried out, especially as the economic mechanism corresponds to objective conditions. On the other hand, the emergence of difficulties and the accumulation of unresolved problems, and the slowing down of the growth rate of efficiency, especially its reduction, are indicators of the inadequacy of the economic mechanism for new conditions.

When the decrees on improving the economic mechanism approved in 1979 were prepared, the results of a thorough analysis of the status of the Soviet economy and the urgent problems in it were taken into account. Such decisions could not have been made 10 to 15 years ago, inasmuch as there were no objective conditions and the necessary experience for this, and, probably, they will give way to new, more well-developed forms of organizing economic life in another 10 to 15 years. But today, at the beginning of the 1980's, what has become well-developed is real and necessary.

This is why, as stated above, full and consistent introduction of the measures stipulated (naturally, taking their richness and specificity into account) represents the main, key direction for improving the economic mechanism in the current stage. However, both the implementation of decisions made and preparation of further steps in forming the economic mechanism of a developed socialist society require the appropriate conditions. At present, ensuring a balanced economy and overcoming bottlenecks and disproportions, that is, establishing the necessary reproductive conditions, are of decisive importance. Only in this case can the stability of plans be ensured, their authority and organizing role be enhanced, an effective system of economic incentive and--what is no less important--responsibility be introduced, and the role of consumers in determining the assortment and quality of products be reinforced.

Of course, balancing itself depends to a considerable extent on the quality of the economic mechanism; that is, it is not only a prerequisite for its high efficiency, but also for its result. However, substantial violations of the reproductive pattern of the economy cannot be eliminated with just the aid of certain forms and methods of management, but require special measures aimed at consistent elimination of bottlenecks and transition to economic growth on a balanced basis.

The availability of organization prerequisites for further improving the economic mechanism assumes no less significance. This relates both to certain general conditions for consolidating the extent of organization and procedure in the national economy and society (the party has attached particular significance to these questions in recent years), as well as to specific problems in organizing the process of improving the economic mechanism itself and the introduction of stipulated measures.

Available experience shows conclusively that improvement in the forms, methods and mechanism of management is an important and relatively independent function in directing the economy. At the same time, it is not carried out episodically, when there is a scheduled reorganization of the economic mechanism, but continuously, inasmuch as improvement of the latter is not a single measure, not a one-time act, but a process of resolving problems raised by events. Moreover, as stated above, the problem is not reduced to making decisions, but presupposes a vast amount of organizational work for their realization, verification of implementation, dissemination of the experience accumulated, and preparation of new proposals. The problem of establishing organizational conditions for further improvement of the economic mechanism requires careful study, taking into account the historical experience and practice of fraternal countries of the socialist community.

Finally, one cannot help but mention that the availability of appropriate personnel is necessary for the improvement and successful functioning of the economic mechanism. The significance of this condition lies in the fact that the economic mechanism under conditions of socialism does not operate automatically, but is directed by people. For this reason, its effectiveness depends on the preparedness of managerial personnel for work under new conditions, and on the style of economic management.

In order to improve the selection, training and evaluation of managerial personnel, we are faced with doing a great deal to overcome stereotypes and the inertia of economic thinking and conduct that have developed. The traditions and habits that took shape in the period when a quantitative aspect, more than a qualitative one, was advanced for the first plan were called by the 26th CPSU Congress the main reason for difficulties and shortcomings existing in the national economy.

The "gross" approach to the economy which prevails in the consciousness of some managerial personnel, underestimation of economical methods of management, and equalizing attitudes have an especially unfavorable effect. Without overcoming such views and attitudes, it is very difficult to reorient the economic mechanism to achieve national economic end results and consistent intensification of production.

Analysis of the conditions necessary for the improvement and successful functioning of the economic mechanism reveals the complexity and many facets of the tasks confronting us in this field. This is one of the main reasons why the party regards improvement of the economic mechanism as an integral part of its political and theoretical activity.

FOOTNOTES

1. "Prodovol'stvennaya programma SSSR na period do 1990 goda i mery po yeye realizatsii" [Food Program of the USSR for the Period up to 1990 and Measures for its Realization], Moscow, Politizdat, 1982, p 16.
2. "Materialy XXVI s"yezda KPSS" [Materials on the 26th CPSU Congress], Moscow, Politizdat, 1981, p 50.
3. "Prodovol'stvennaya programma..." op. cit., p 9.
4. L. I. Brezhnev, "Speech at the CPSU Central Committee Plenum 16 November 1981," Moscow, Politizdat, 1981, p 10.
5. "Prodovol'stvennaya programma..." op. cit., p 18.
6. For more detail on these problems, see L. Abalkin, "The Intensive Type of Reproduction and the Problem of Plan Balancing," PLANOVOYE KHOZYAYSTVO, No 11, 1978.

7. "Materialy..." op. cit., p 50.
8. See "Sovershenstvovaniye khozyaystvennogo mekhanizma. Sbornik dokumentov" /Improving the Economic Mechanism. A Collection of Documents/, Moscow, PRAVDA, p 24.
9. This does not refer to the economic mechanism as an objective manifestation of the economic life of a socialist society, but to the forms of its expression in the system of categories of science, in specific economic planning and management documents.

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ECONOMIC POLICY, ORGANIZATION AND MANAGEMENT

ON A UNIFIED APPROACH TO DEFINING NORMS, INDICATORS OF PROFITABILITY

Moscow IZVESTIYA AKADEMII NAUK SSSR. SERIYA EKONOMICHESKAYA in Russian No 3, May-Jun 82 pp 67-75

[Article by N. I. Buzova and V. P. Kraytman]

[Text] The vertical commensurability of economic indicators is a necessary prerequisite to the aggregation and de-aggregation of information, i. e., the transition from the detailed product mix to the economic aggregate and vice versa without violating the internal logic of organization of information flows in the economy. Any deviation from this principle leads to the lack of coordination of actions by various elements of the system of management. The article illustrates this point on the basis of the example of existing methods underlying the construction of profitability norms and the calculation of profitability indicators. The urgent necessity for and possibility of a unified approach to the definition of profitability at all levels of the economic hierarchy are shown.

The character of functioning of the economic mechanism depends to a considerable degree on the system of economic indicators and norms. Principal among these is the profitability norm for determining profit included in the price of products since prices are the basis of all economic measurements. The evaluation of the results of financial and economic activity of enterprises and associations depends to a considerable degree on the methods used to construct the profitability norm in pricing and therefore all elements of the economic mechanism react sensitively to the methodology used to construct the given norm. The frequent result is a situation in which cost accounting interests frequently prompt enterprises and associations to act contrary to national economic interests.

The enterprise cost of production [sebestoimost'] minus direct material inputs was used as the base for establishing profitability norms in the last revision of wholesale prices on machine building products. Here profitability norms computed in terms of enterprise cost of production (P_e) were replaced by profitability norms calculated in terms of the so-called cost of manufacture [stoimost' obrabotki] (P_{co}).¹

Net output norms [NON], which are slated to play an important part in improving the economic mechanism, were determined simultaneously with the new wholesale prices in the revision process. Labor productivity and the output volume

will be determined on the basis of normative net output. Profit calculated on the basis of profitability vis-a-vis cost of manufacture (P_{co}) is included in the wholesale price of a product and at the same time in the NON and has a decisive impact on that indicator since its share in the NON of machine building branches (given a profitability norm that is on the average 15 percent of productive capital) is 40 percent. From this it follows that the correct determination of profit in wholesale prices and in NON on the basis of scientifically substantiated profitability norms becomes a decisive factor in making the transition to the normative net output indicator in evaluating the activity of enterprises, associations and branches.

At the branch level, profit in price is determined on the basis of profitability norms calculated in proportion to the value of branch productive capital. If this scientifically substantiated principle is observed without fail, there will be methodological unity in the system of prices and associated economic calculations. This will mean the realization of one of the important potential advantages of the planned economy. However the transition from the branch level of economic calculations to lower levels of the economic hierarchy is accompanied by the replacement of the profitability norm with regard to capital by the profitability norm vis-a-vis the enterprise cost of production or the cost of manufacture.

In order to determine the reaction of the economic mechanism to methodological innovations in pricing, let us examine the basic properties of profitability norms and indicators calculated in terms of enterprise cost of production and cost of manufacture and the economic consequences of the replacement of one norm by the other. Structurally, profitability based on the enterprise cost of production is a fraction whose numerator depends on the denominator in such a way that any change in the latter automatically entails a change by the same magnitude but with the opposite sign of the numerator. The result of this is the sharp deviation of actual profitability from its normative value even with a negligible change in the enterprise cost of production and this is a by no means inoffensive feature of this indicator. V. N. Tret'yakov, first deputy ministry of instrument making, wrote in this regard: "It is common knowledge that in the most progressive branches of industry (machine building and instrument making) that develop at a relatively more rapid rate and that are annually assigned high rates of reduction of enterprise cost of production, profitability increases 1.5-2 fold roughly every 2 years compared with the norm. As a result of the insufficient analysis of causes and dependences, such branches of industry are classified among those that undeservedly receive additional profit supposedly as a result of unduly high wholesale prices"[1]. In his work, V. N. Tret'yakov argued that the trend toward sharp fluctuations is inherent in the very nature of P_c and as proof presents a detailed calculation of dependences of change in P_c on changes in the enterprise cost of production (for various values of profitability norms vis-a-vis the enterprise cost of production).

The regularities that are detected in the process and presented in tabular and graphic form make it possible to forecast the behavior of P_c depending on change in the enterprise cost of production.

The cited statement by V. N. Tret'yakov holds true not only for the machine building branches. This can be judged on the basis of a report of the

USSR State Committee on Prices "On the Findings of a Check on Work on Price Formation and Monitoring of the Observance of Price Discipline Regarding Industrial Products Produced by Enterprises Belonging to the USSR Ministry of Agriculture" which discusses substantial shortcomings in work on the establishment of wholesale prices and the monitoring of their application which have been revealed at enterprises subordinate to the Main Administration of the Microbiological Industry, the All-Union Association for Zooveterinary Supply and Industry, the All-Union Scientific Production Association for Agrochemical Services to Agriculture, and the All-Union Academy of Agricultural Sciences im. V. I. Lenin. In 1979, seven out of eight audited enterprises subordinate to the Main Administration of the Microbiological Industry had a profitability 1.5-6 times higher than normative profitability. This was the result of the overstatement planned expenditures submitted as substantiation of the projected level of wholesale prices. In particular, the projected enterprise cost of production in estimates submitted by enterprises is frequently at a higher level than specified in the technical, industrial and financial plan. Thus when the Shchelkovskiy Biocombine drafted its wholesale price on OAS vaccine, it specified the enterprise cost of production of 1,000 dosages at 229.8 rubles, adopted 218.5 rubles in the technical, industrial and financial plan for 1979. The actual enterprise cost of production was 196.9 rubles while the ratified wholesale price was 270 rubles per thousand dosages. The result was that profitability exceeded normative profitability more than twofold in the very first year of production [2].

From the analysis of the cited data, it follows that the profitability norm

vis-a-vis the enterprise cost of production is $\frac{270 - 229,8}{229,8} \cdot 100 = 17,5\%$;

the enterprise cost of production adopted in the substantiation of the price

was 5.17 percent higher than that adopted in the technical, industrial and

financial plan $\left(\frac{229,8}{218,5} \cdot 100 = 105,17\% \right)$ which led to a 1.34 fold increase in

profitability compared with the norm $\left(\frac{270 - 218,5}{218,5} \cdot 100 = 23,5\%; \frac{23,5}{17,5} = 1,34 \right)$.

While the overstated enterprise cost of production is unquestionably a negative phenomenon, but at the same time the given enterprise might avoid being classified as one of the given violators which included only those whose actual profitability exceeded the norm 1.5 fold or more.

If the enterprise included in the substantiation of the price the same enterprise cost of production as in the technical, industrial and financial plan (i.e., 218.5 rubles) and the ratified price was 257 rubles ($218.5 \times 1.175 = 257$

rubles, given the actual lowering of the enterprise cost of production by

10.97 percent $\left(\frac{218,5 \cdot 100}{196,9} = 110,97\% \right)$ compared with the plan, actual profitability

would be 27.5 percent $\left(\frac{100 \cdot (257 - 196,9)}{196,9} = 27,5 \right)$ which is 1.57 fold higher than the

established norm $\left(\frac{27,5}{17,5} = 1,57 \right)$.

Thus the basic reason why the enterprise was classified among the violators was the unplanned lowering of the enterprise cost of production by 10.97 percent which caused profitability to increase more than 1.5 fold.

The situation described above is typical and stems from a deficient understanding of the specific properties of profitability calculated on the basis of the profit to enterprise cost of production ratio.

Profitability calculated in terms of the cost of manufacture (P_{co}) is also a fraction in which the numerator is bound to the denominator by a certain dependence. However, fluctuations of the actual magnitude of P_{co} relative to the norm may be substantially greater than for P_c while the dependence between the numerator and denominator is so complex that it becomes practically impossible to forecast the behavior of P_{co} (especially in the case of a large product mix).

Let us illustrate this point on the basis of specific examples.

Let us assume that a certain product has the following cost parameters:

price of product=120, including profit=20;
enterprise cost of production=100, including direct material inputs=40;
cost of manufacture=60.

The price on this product was determined on the basis of a profitability norm that was 20 percent of the enterprise cost of production and 33.3 percent of the cost of manufacture, i. e.:

$$P_c = \frac{20 \cdot 100}{100} = 20\%; \quad P_{co} = \frac{20 \cdot 100}{100-40} = 33,3\%.$$

What will become of the profitability of a product if at the end of the year its enterprise cost of production has decreased by 10 percent and now equals 90 units?

Profit in such a case will be $120-90=30$ while $P_c = \frac{30 \cdot 100}{90} = 33,3\%$

(i. e., at the same time that the enterprise cost of production decreased by 10 percent, P_c increased 1.66 fold).

How will the actual indicator P_{co} change in the process? If the lowering of the enterprise cost of production was exclusively due to the curtailment of direct material expenditures (from 40 to 30), then

$$P_{co} = \frac{30 \cdot 100}{90-30} = 50\%.$$

The reduction of the enterprise cost of production by 10 percent may also occur as a result of a lowering by five units of either material expenditures or of the cost of manufacture. In such a case, the actual profitability will be:

$$P_{co} = \frac{30 \cdot 100}{90-35} = 54,5\%.$$

If material inputs remained the same and labor inputs decreased (from 60 to 50), then:

$$P_{co} = \frac{30 \cdot 100}{90-40} = 60\%.$$

There is the possibility of a variant in which direct material inputs grow while labor inputs decrease and moreover to a greater degree. Such cases are frequent when an enterprise discontinues the manufacture of individual assemblies and components of a product and begins receiving them on a cooperative basis. Let us assume that in our example, material inputs increased by 10 units (from 40 to 50), and labor inputs decreased by 20 (from 60 to 40), then:

$$P_{co} = \frac{30 \cdot 100}{90-50} = 75\%.$$

Thus the result of the lowering of the enterprise cost of production by 10 percent was that the profitability of the product (P_{co}) increased from the norm (equal to 33.3 percent) to 50, 54.5, 60 and 75 percent.

Obviously, there is an entirely possible variant in which P_{co} will change when there are changes in the structure of the enterprise cost of production while its magnitude on the whole remains stable. Let us assume that in our example, material inputs increased by 10 units while labor inputs decreased by the same magnitude. Then

$$P_{co} = \frac{20 \cdot 100}{100-50} = 40\%.$$

It is also possible that P_{co} will remain the same when the enterprise cost of production declines. Let us assume that an enterprise begins using less expensive but not lower quality raw materials. In such a case, material inputs decrease by 20 units while labor inputs increase by 15 units. The enterprise cost of production in general decreases by 5 units and profit increases by 5 units. In such a case, P_{co} will equal:

$$P_{co} = \frac{25 \cdot 100}{95} = 33,3\%.$$

Thus, notwithstanding the lowering of the enterprise cost of production, the profitability of the product P_{co} remained at the level of the established norm.

Naturally, we have by no means exhausted all potential variants of change in P_{co} when the enterprise cost of production changes, nonetheless the cited examples offer a graphic picture of the dynamics of the new profitability indicator and make it possible to draw the following conclusions.

1. The dynamics of P_{co} unlike P_c depends on change in the magnitude of the enterprise cost of production and the dynamics of its structure.
2. The actual level of P_{co} can be analyzed and the behavior of this indicator can only be analyzed on the basis of the factor analysis of the dynamics of the enterprise cost of production and its structure, which under the actual conditions of a large product mix entails considerably difficulty.

In addition to differences in the methods of construction and in the character of their influence on the economic mechanism, norms P_c and P_{co} reveal a deep, fundamental similarity in many of the most important economic aspects. As a result of this, the problems whose solution depends primarily on the correct construction of the profitability norm in price formation remain unresolved under new conditions. In other words, basic shortcomings in the functioning of the economic mechanism that were born of the use of the enterprise cost of production as the base for determining the profitability norm in price formation remain when the new base--enterprise cost of production minus direct material inputs--is used to this end.

The new price formation procedure does not resolve the problem of profitable or unprofitable product mix. The point is that the use of any element (or group of elements) of the enterprise cost of production as the basis for establishing profitability norms, as practice shows, inevitably means that the products that are more profitable to the producer are those products that have a relatively higher share of profit-forming elements in the structure of their enterprise cost of production. But on the whole, there are trends toward the growth of profit-forming elements in the structure of the enterprise cost of production.

Thus the methods used to construct profitability norms in price formation (proportional to the total enterprise cost of production) prior to 1980 substantially contributed to the fact that we, in the words of M. N. Baybakov, chairman of USSR Gosplan, "expend significantly more material resources per unit of final product than the developed capitalist countries" [5].

The existence of a profitable and an unprofitable product mix may lead to contradictions between local cost accounting interests of enterprises and branches and national economic interests, which does not permit the full realization of the advantages of the planned system of economic management.

The transition to a new base in the calculation of profitability norms in the price formation practice only means a certain shifting of emphasis from the material component of the enterprise cost of production to the labor component. At the same time, enterprises lack additional incentive to reduce the labor-output ratio. V. V. Kosssov believes that "normative net output reorients values. It will become more profitable to produce labor-intensive products and cooperation will become less profitable" [3]. Given the growing manpower shortage, such shifting of emphasis cannot be considered desirable.

As regards the dynamics of the materials-output ratio, under the new conditions of price formation, incentives for increasing the magnitude of direct material inputs in the enterprise cost of production truly disappear. However, incentives for curtailing material inputs are not manifested in the process. The incentive to increase the material expenditures that will enter the profit-forming part of the enterprise cost of production under the new conditions (auxiliary materials, fuel and energy for home use, spare parts for equipment, tools and a number of others) not only does not diminish but to the contrary mounts since profitability norms are significantly higher vis-a-vis the new base than profitability norms based on the full enterprise cost of production.

It should be noted that under the 11th Five-Year Plan, expenditures on fuel and energy in value terms grow substantially and at the same time there may be heightened interest in their uneconomical expenditure.

Calculations show that in machine building, the value structure of the part of the enterprise cost of production that remains after direct material inputs have been subtracted has the following form:

	%
wages.....	59.3
amortization allowances.....	18.8
other material and monetary outlays....	21.9

Thus even under the new conditions, approximately 40 percent of the profit in the price of machine building products is the result of material expenditures in the enterprise cost of production which is to be sure 30 percent less than the corresponding figure before the price revision.

As the manpower shortage increases, the growth of capital per worker becomes a decisive factor in the further growth of the productivity of live labor.

The result of the fact that price formation takes into account expenditures of capital only at the level of branches and does not take them into account product by product is that concrete prices become a less precise yardstick of expenditures of social labor. As a result of the failure to take capital expenditures fully into account, by 1981 branches (and enterprises within branches) possessing a relatively greater mass of capital were among the least profitable. (It should be borne in mind that amortization allowances counted as part of the enterprise cost of production of products do not reflect the capital-intensiveness of products since fixed capital varying in value may be behind one and the same sum of amortization allowances. The capital-intensiveness of working capital is also not reflected in the prices of products.) This results in the illusion that branches and enterprises with the highest capital per worker are least effective since a larger part of society's resources is invested in them. In reality, however, this illusion is born of price formation particulars.

As a result of the revision of wholesale prices on the basis of profitability norms (uniform for branches or subbranches) vis-a-vis the cost of manufacture, enterprises set about working under new conditions already having sharply differing indicators of profitability (vis-a-vis capital). Thus, for example, in the production of computers, profitability (vis-a-vis capital) of enterprises with the highest capital per worker will have more than a 1.5 fold lower profitability than enterprises with the lowest capital per worker. It is entirely obvious that these differences do not reflect the pluses of highly profitable enterprises or shortcomings in the management of relatively unprofitable enterprises. The source of these differences is the profitability norm in price formation.

In all reference and encyclopedic publications, profitability is determined as a general indicator of the economic effectiveness of production throughout the entire national economy and in each of its elements. With regard to

its economic content, the unified national economic profitability norm (taken as 15 percent at the present) means that every ruble of additional capital investments in productive capital must reduce the enterprise cost of production (or, what is the same thing, the growth of profit) by at least 15 kopecks a year. If this condition is not fulfilled, the investment of funds with the aim of securing the further reduction of the enterprise cost of production is considered irrational.

Profitability norms computed in terms of the enterprise cost of production or the cost of manufacture do not have such a clear, precise economic interpretation. What is more, the orientation toward profitability computed in terms of the enterprise cost of production or the cost of manufacture may lead to false conclusions in the evaluation of the effectiveness of production. By virtue of its economic specifics, this indicator of profitability may grow when the effectiveness of additional capital investments is substantially lower than the established national economic norm (not 15 percent but, for example, 0.15 percent). Thus the growth of profitability calculated vis-a-vis the enterprise cost of production or the cost of manufacture can conceal the actual decline of the effectiveness of production.

The present contradiction between price formation and planning practice is not only not eliminated but to the contrary is intensified. In planning practice, the substantiation of the economic effectiveness of new technology and capital investments is based on the use of the unified national economic norm. The planning of the economic effectiveness of capital investments in the compilation of the five-year plan is also based on the profitability indicator which is computed in terms of productive capital. The subsequent changeover to another base in the process of establishing the profitability norm in the price formation process leads (and this situation persists under the new conditions) to unsubstantiated deviations in actual economic effectiveness from planned effectiveness. Indeed, the actual and planned indicators are incommensurable by virtue of the different methodologies used in their definition.

Obviously, the profitability of production of the enterprise as a whole must be formed from the profitability of production of concrete products just as any whole consists of its component parts. More precisely, the profitability of production of the enterprise as a whole must be an average weighted magnitude consisting of indicators of the profitability of concrete products. This condition is observed in the uniform calculation of profitability (vis-a-vis capital, the enterprise cost of production, and the cost of manufacture). In practice, however, the profitability of an enterprise forms irrespective of the profitability of a product since these indicators are determined by various methods.

The negative consequences of the use of various methods used in the construction of norms and indicators of profitability are to a considerable degree veiled by the large product mix in machine building. If an enterprise produced only one type of product, there would always be a situation in which a unit of output and the entire aggregate of products would have different profitability and different dynamics of profitability. There may possibly also be cases when an increase in the profitability of a unit of output reduces the overall profitability of an enterprise. It would appear that the obvious paradox

of such situations would stimulate the more vigorous search for correct answers to the question of the nature of true effectiveness of production and on the kind of profitability that economic managers should be encouraged to increase.

However in economic reality, we do not encounter such paradoxes in such obvious form because, as already stated above, they are concealed by the large product mix. The insolvency of the attempt to compare numerous indicators of the profitability of products computed according to a single base with the sole indicator of enterprise profitability computed according to another base and specifically to capital is now too obvious. Enterprise profitability and product profitability act as qualitatively different economic yardsticks even though there must be only a quantitative difference between them.

Norms and indicators calculated by various methods are not coordinated with one another. In accordance with the existing practice, each of these indicators and norms has its own sphere of action.

The profitability of production--an indicator that is calculated in terms of the enterprise cost of production or the cost of manufacture--is used in price formation and planning as an economic norm and for the evaluation of the effectiveness of the production of concrete products. This indicator, which is uniformly calculated for products, enterprises and associations, is operative in the "Certificate of Profitability of Individual Types of Products" which is an appendix to Statistical Form No 6 and in the "Accounting Table" (Form 1M) which is submitted to the ministry and to the USSR State Committee on prices in the process of establishing wholesale prices on new types of producer goods. It is also used by planning and price services at various levels primarily for the purpose of analyzing the actual effectiveness of the production of concrete products and for making decisions on the revision of prices on highly profitable products.

The profitability of production (an indicator that is calculated as the ratio of profit to the value of productive capital) as a uniform national economic norm is used by the planning services to calculate the economic effectiveness of capital investments and new technology, by design and capital construction departments for calculating the economic effectiveness of capital investments for the purpose of compiling the five-year plan.

Financial services at all levels use the indicator of profitability (vis-a-vis capital) for the evaluation of actual effectiveness of production at the level of the enterprise, associations and branches and for economic stimulation based on the results of financial and economic activity.

Thus the absence of economic commensurability of profitability norms and indicators when the transition is made from the production level to the enterprise and branch level leads to contradictory information on the dynamics of the effectiveness of production in various sources. Contradictory managerial decisions is the inevitable consequence of this. The observance of the commensurability principle is a necessary condition to the organization of the system of economic information. "While the problem of 'horizontal' commensurability is primarily a problem of reducing the total diversity

of technological modes of production and consequently of ranking them according to economic effectiveness, 'vertical' commensurability is a necessary prerequisite to the aggregation and de-aggregation of economic information in the decision making process at various levels of management....Only then does it become possible to make the transition from the detailed product mix to the economic aggregate (an vice versa) without violating the internal logic of the organization of information flows in the economy. Any deviation from this principle gives rise to a lack of coordination in the actions of various management links" [4].

The need to calculate capital-intensiveness in prices has already been theoretically proven. However, the practical realization of this principle has for many years been impeded by the absence of methods on determining the capital-intensiveness of products.

In recent years, work on these methods has been carried out at the Institute of Electronic Control Machines of the USSR Ministry of Instrument Making, Automation Equipment, and Control Systems under the supervision of the Central Mathematical Economics Institute of the USSR Academy of Sciences. By 1977 the methods had been tested at all enterprises belonging to VPO "Soyuzelektronmash" and were subsequently incorporated in "Branch Instructions on Determining the Economic Effectiveness of the Production and Use of New Technology, Inventions and Innovative Proposals" [6].

However price formation is unquestionably the principal area of application of the aforementioned methods. The use of capital-intensiveness for the determination of profit in prices of products according to a single norm also makes it possible to resolve such important economic problems as the elimination of the disparity between planning practice (with regard to the substantiation of economic effectiveness) and the practice of price formation, the attainment of equal cost accounting advantageousness in the production of various types of products, and the enhancement of the degree of coordination of national economic interests with the cost accounting interests of enterprises and branches and the precision of economic measurements.

This will also make it possible to improve the quality of calculation of the enterprise cost of production in that the amortization allowances can be distributed in proportion to the capital-output ratio (and not in proportion to wages as is presently the case). Here, amortization allowances can become a separate entity in the calculations as a result of which there will be an additional source of economic information.

In this regard, it is expedient to pose the question of conducting an economic experiment on the scale of a branch or subbranch with the aim of establishing prices and net output norms on all products of the branch, subbranch or industrial association with due regard to the capital-intensiveness of production of each type of product. It can be conducted at enterprises belonging to the USSR Ministry of Instrument Making, Automation Equipment, and Control Systems--the initiator of the development and practical application of new economic methods of production management which also has a great deal of experience in calculating the capital-intensiveness of products.

Thus in our view the process of improving branch planned price formation can be conducted in stages: the mechanism of counting the capital-intensiveness of production in prices on products can be tested on a narrow test field (already under the 11th Five-Year Plan). At the same time, methods of determining the full wage-intensiveness of products on the scale of the national economy. The calculation of wage-intensiveness is a component part of the calculation of norms governing the net product. As a result, by the beginning of the 12th Five-Year Plan, conditions will be created for the application in price formation of a developed formula of the price of socialist reproduction which, according to most Soviet economists, most fully reflects socially necessary labor inputs under socialism.

FOOTNOTE

1. However, the given measures did not lead to methodological unity in price formation system, This is attested to by the fact that some machine building branches in addition to using Pco norms, which are employed in the establishment of permanent wholesale prices, also use Pc norms if ad hoc or temporary prices, prices on an experimental lot or a test series are ratified. Pc norms are also applied in the establishment of permanent prices on products of the electronic industry and on certain other types of products of the machine building industry. In a number of branches of the extractive industry, for example in the determination of wholesale prices on nonferrous metals, alloys and powders, profitability norms are established on the basis of the capital-intensiveness of products.

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INVESTMENT, PRICES, BUDGET AND FINANCE

PROCEDURE DETAILED FOR CREDIT FINANCING INVESTMENT PROJECTS

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[Article by A. L. Zinov'yeva, chief of the division for organization of credit financing and budget financing of capital investments of the Administration for Planning and Economic Statistics of the Gosbank Board, and G. N. Gangus, chief division expert: "On Credit Financing Capital Outlays Beyond the Limit of State Capital Investments"]

[Text] The USSR Gosbank Board approved on 9 July 1981 Instruction No 5 entitled "On Procedure for the Credit Financing of Capital Outlays Beyond the Limit of State Capital Investments." Along with the principles contained in Instruction No 5 of USSR Gosbank dated 20 August 1968, it has taken into account the new principles arising out of the decree of the CPSU Central Committee and USSR Council of Ministers dated 12 July 1979 and entitled "On Improving Planning and Strengthening the Influence of the Economic Mechanism on Increasing Production Efficiency and Work Quality" and other decisions on the aspects of capital construction.

In the current 5-year period particular attention is being paid to the task of increasing the efficiency of capital investments. The main direction in the system of measures taken to radically improve matters in construction is ensuring a concentration of energies and resources on the most important projects and those near completion as well as consistency between capital investments and the respective materials and equipment and capabilities of construction and installation organizations. Restrictions are being placed on transfers of funds by state enterprises and economic organizations earmarked for formation of noncentralized sources of financing for capital investments, and the number of these sources is being reduced. At the same time restrictions have been placed on construction of administrative buildings, auditoriums and athletic buildings and installations and also projects being built beyond the limits of state capital investments from noncentralized sources.

The mechanism for extension of credit to finance outlays beyond the limit of state capital investments is aimed at creating for enterprises conditions that ensure responsive satisfaction of the need of enterprises for credit and at the same time the necessary strictness of price supervision over efficient use of the credit for the purpose specified.

The instruction provides a uniform procedure for extension and repayment of credit to cover outlays beyond the limit of state capital investments and identifies the peculiarities of credit financing in particular directions and for particular measures.

The first chapter, which is entitled "General Principles," defines the sphere in which credit is to be used and sets forth the general principles for credit financing outlays beyond the limits of state capital investments. The purpose of the instruction is to organize the credit financing of capital investments of state associations, enterprises and organizations.

The list of measures for which Gosbank is to extend long-term credits to the economy to cover outlays beyond the limit of state capital investments and also the terms and conditions of that credit are set forth in Appendix No 2 to the instruction. It should be borne in mind in this connection that pursuant to Letter No 400 of the Gosbank Board, dated 28 September 1981, in the 1982-1985 period credits of the bank to cover work items and outlays beyond the limits of state capital investments are extended only for measures related to expansion of the production of consumer goods, including expansion and reconstruction of facilities for the production of semifinished products, components and assemblies used in production of durable consumer goods and housewares, along with improvement of consumer services to the public and development of the trade sector and communications, as well as for highly efficient measures to manufacture new products and to improve the quality of products already produced, for development of the physical plant and equipment of sovkhozes and other state agricultural enterprises provided the measures for which credit is granted are carried out within a period of 1 year and have a payoff period of less than 2 years from the date of completion of the measure, and provided that the credit is repaid within that 2-year period. At the same time the procedure has been retained whereby the bank extends credit for a period up to 6 years to cover outlays for organization and expansion of the plant and equipment of subsidiary farming operations of enterprises, organizations and institutions. In addition, it is allowable for loans to be granted for a term up to 6 years to cover outlays to expand the network of movie theaters and to perform certain measures in the development of communications over and above the limits of state capital investments.

Credit to cover outlays beyond the limit of state capital investments is extended to enterprises, associations and organizations within the limits of USSR Gosbank's plan for long-term credit financing and must promote their overfulfillment of planning targets assigned for the growth of production and for raising labor productivity and product quality, above all development of the production of goods and services for personal consumption achieved by mobilizing unused internal potential.

The bank's tasks are to concentrate credit, physical and labor resources on construction projects near completion and carried over and to speed up their activation, priority assignment of credit for the retooling and reconstruction of existing enterprises, and also maximum mobilization of resources of economic entities themselves assignable to capital investments.

In the granting of a loan to cover outlays beyond the limit of state capital investments a thorough examination must be made of figures on development of credit relations with economic agencies and also of data on the efficiency of the borrower's use of credit over a period of time. An analysis must be made of the enterprise's fulfillment of the capital investment plan and above all the plan of activation of fixed capital, and there must also be an analysis of the figures on utilization of existing fixed capital and production capacities. Institutions of the bank must possess the necessary evidence of the enterprise's abilities to complete the outlays beyond the limit of state capital investments within the planned (allowed) period of time and to ensure full utilization of the newly added capacities. The granting of the loan must accordingly be preceded by a strict selection of the most effective measures and purposes of outlays beyond the limit of state capital investments.

The indicator describing the size of additional profit (reduction of production cost) and additional output per ruble of credit obtained to carry out the respective measure and used within the assigned period is recommended by the instruction as the summary indicator of efficiency of the credit. The instruction proposes that the Standard Method of Determining the Economic Efficiency of Capital Investments,¹ approved by USSR Gosplan and USSR Gosstroy as a temporary method, and also the sectorwide instructions drafted on the basis of that instruction, which take into account the peculiarities of calculations of the efficiency of capital investments in the sectors and subsectors of the economy, be used in analyzing the efficiency of use of the credit.

The efficiency of capital investments is expressed in general form by the ratio of the benefit to costs. The indicators of absolute and comparative economic efficiency of capital investments are used to describe capital investments.

For the 11th Five-Year Plan the standard of total (absolute) efficiency² is being set at the following levels for the sectors of the economy: 0.16 for industry, 0.07 for agriculture, 0.05 for transportation and communications, 0.22 for construction, and 0.25 for trade, procurements, material and technical supply, and other sectors.³ The standard coefficient of comparative efficiency for the national economy as a whole is being retained at a level of at least 0.12 for the 11th Five-Year Plan.⁴ Moreover, whereas loans in the current 5-year period are to be granted only for measures with a payoff period less than 2 years (except credits extended for a term up to 6 years for

1 EKONOMICHESKAYA GAZETA, No 2, 1981, p 3.

2 For the national economy, its sectors and subsectors, as well as for the union republics and regions of the country--this is the ratio of the benefit in the form of the growth of national income or growth of net (and normative net) output to the capital investments, which must be achieved within the planning period; for cost-accounting (khozraschet) associations, enterprises, their parts and individual projects where normative net output is not computed, it is the ratio of profit or saving on production cost to the capital investments for those projects.

3 EKONOMICHESKAYA GAZETA, No 2, 1981.

4 Ibid.

development of subsidiary farming operations and also development of communications and movie theaters), the efficiency of outlays covered by Gosbank credit beyond the limit of state capital investments must be considerably higher than those standards.

In certain cases other sources may be used to repay credit along with the additional profit from the measure being financed with the credit: in particular, the turnover tax from sale of the additional output produced and the profit from the enterprise's entire activity. That is why the forms of calculations of the period for repayment of the credit are appended to the instruction so that the enterprise can determine whether it qualifies to obtain a loan.

In addition to the summary indicators of the efficiency of credit, it is advisable to take into account value and physical indicators for construction and operation of projects (fixed capital). This approach helps to substantiate selection of the purpose of the credit and ensures comprehensive and objective evaluation of the stimulative effect of the credit on raising the efficiency of capital investments. Attention should also be paid in this connection to such an important factor in raising the efficiency of capital investments as reduction of the relative share of construction and installation work and increasing the share of equipment.

An analysis of the level and dynamic pattern of the indicator of the capital-labor ratio in its interaction with labor productivity at a given enterprise (in a given section) must be an integral part of the bank's supervision over the efficient use of the credit both in the stage of making the decision on granting the loan to carry out the measure and also after it has been completed. This analysis makes it possible to make an objective evaluation of the influence of the intended measure or the measure that has been carried out with the credit on the change of labor productivity, size of the work force and the wage fund.

The efficiency of credit depends not only on the quantity and quality of fixed capital activated, but also on utilization of that capital. That is why it is important to analyze such indicators as labor productivity, production cost, and the output-capital ratio (capital intensiveness).

The output-capital ratio is a summary indicator of utilization of fixed productive capital that reflects with sufficient completeness the efficiency of existing fixed capital actually attained and which makes it possible to set the outlays to build those capital assets against the result of their operation. At the same time it is interesting to determine the factors that influence its level and dynamic behavior and on that basis to discover potential for raising the output-capital ratio.

Along with changes in the proportions among the constituent elements of fixed productive capital, labor productivity, labor intensiveness and material intensiveness, and other factors, a large influence on the level and dynamic pattern of the capital-output ratio is exerted by the operating conditions of the fixed capital, its active portion above all.

Experience shows that as the level of the equipment-labor ratio rises, there is a stronger interconnection and interdependence between the level of organization of work and work efficiency. An important potential for making technical progress more effective is to eliminate work time losses and also to intensify the operation of machines and equipment by placing the maximum load on their capacities. Coefficients of intensive and extensive utilization of fixed capital are calculated in the analysis.

The task of the most optimum utilization of physical, labor and financial resources in making outlays beyond the limit of state capital investments made it a necessity that the instruction incorporate a number of principles which have to be adhered to in loans are to be granted. For instance, loans are not granted in cases when the existing capacities of an enterprise for the production of that product whose additional output is supposed to be accomplished by making the above-limit capital investments financed with the credit are not fully utilized.

The formation of delinquent indebtedness on loans received previously because of the inefficiency of outlays made previously beyond the limit of state capital investments is also an obstacle for an enterprise to obtain credit for new measures. Nor is credit to be extended in cases when the borrower has not met the deadlines for performance and completion of work items of credit-financed measures begun previously. In order to avert unplanned construction, it is forbidden to grant loans for measures begun with financing from other sources before the credit is obtained. It is not permitted to use this type of credit to complete outlays which are already being made within the limit of state capital investments.

The second chapter, which is entitled "Procedure for Granting and Repaying the Loan," sets forth the general rules governing the granting and repayment of loans.

The instruction provides that Gosbank institutions are to participate directly in conducting the business of granting loans. Depending on the size of the loan, the decision on granting it is to be made by the branch serving the borrower, the office or the Gosbank Board upon application of the respective enterprise or its superior organization. At the same time the bank's institutions serving the borrower, regardless of the estimated cost of the measure intended, should check the makeup and content of documentation on the measure and should submit their conclusion to the bank's higher-level office on the advisability of extending the credit.

In addition to indicating the amount of credit necessary and the estimated cost of the measure, in order to obtain a loan the borrowing enterprise or its superior organization (depending on the size of the credit) shall state in the application the intended date of commencement of the work and the planned date of completion of the measure. In addition, the application must contain information to the effect that the borrowing enterprise has the necessary materials and equipment for carrying out the measure, can perform the construction and installation work to accomplish it within the allowed (planned) period of time and can guarantee full utilization of the newly added capacities.

Enterprises shall submit to the bank cost estimates and plans on all types of outlays and also calculations of dates for repayment of the credit. In order to prevent unwise use of land and water resources, when outlays are being made for construction, expansion and reconstruction a certificate shall also be submitted to the bank on the existence of documents envisaged by land use and water use rules, made out in the form set forth in the instruction, as well as the calendar plan (schedule) for performance of the work items. If the work items are to be performed by a contractor, the bank shall receive the job contract from the borrower.

Project plans and estimates shall be drawn up pursuant to the normative acts of USSR Gosstroy on the makeup, drafting procedure, clearance and approval of project plans and estimates for construction of enterprises, structures and installations. This documentation shall bear the approval of the enterprise director. Project plans (working designs) for the measures outlined shall be submitted to the bank.

Project planning shall be done as follows: in one stage--working drawings with summary calculation of cost if the construction will be done according to standard designs and designs which have already been used, and also on projects which are not complicated; in two stages--the project plan with summary calculation of estimated cost and the working documentation with estimates--for other construction projects, including large-scale and complicated projects.

Project plans (working drawings) for reconstruction and retooling of shops and sections must be prepared as a rule in one stage--the working design.

Responsibility for checking and analyzing project plans and estimates is placed on the engineering staff of the bank institution permitting the credit. In the necessary cases the bank institution may require that the enterprise submit catalogues of unit prices, price lists, official costings and other documents justifying the cost of work items and outlays so that the cost-estimate documentation can be checked.

The requirement that the outlays pay for themselves and that the credit be repaid within the period set forth for credit financing of the type of outlay involved lies at the heart of extending credit to finance outlays beyond the limit of state capital investments.

It must be borne in mind that the period for use of the credit begins to run from the moment when the first loan is issued. The total term of the credit includes the time during which the enterprise is carrying out the measure and the time after the project is put into operation during which the loan is being repaid from the profit (economy) obtained from performing that measure and from other permitted sources.

These principles are taken into account in the forms for calculation of the periods of time for repayment of the credit which are appended to the instruction. There are several types of these forms, which take into account the specific peculiarities of capital outlays which can be made with bank loans.

But they all contain the indicators of the estimated cost of the intended measure and the growth of a specific product or service anticipated from its accomplishment and the accumulation from producing the product or rendering the service, as well as the dates of commencement and completion of the work. For those cases when the repayment period is determined under legislation in effect not only with respect to the additional accumulation (saving) resulting from the measure performed with the credit, but also from other sources, forms containing the relevant indicators shall be used. The need for credit must also be reduced by the amount of profit and saving from reduction of production cost of construction and installation work in those cases when the plan is to perform the measures by the direct-labor method. The size of that accumulation is defined as the ratio of the amount of planned accumulation included in the estimate to the volume of construction and installation work to be done by direct labor.

Credit shall be extended in the amount of the full estimated cost of the measures minus the value of reimbursable amounts envisaged in the cost estimate and also minus the costs of maintaining the administration of the enterprise under construction or technical supervision at an existing enterprise.

In cases when the borrower does not receive structures necessary for carrying out the measure financed with the credit gratis, but must pay for them, the bank shall extend credit to cover these costs. Calculations for these projects shall be made according to the procedure defined by Instruction No 75 of USSR Ministry of Finance and USSR Gosplan, dated 16 April 1980.

Limits on the credit financing of measures accepted shall be established within the limits of the outlays of the current year.

When the question of granting a loan is being decided, it should be borne in mind that the instruction prohibits the use of this type of credit to pay bills for imported equipment and also for the preparation of project plans and estimates. The loan may be used only to reimburse the cost of equipment enlisted to carry out the measure on the basis of mobilization of unused internal potential.

It is indispensable to take into account the peculiarities of issuing associations, enterprises and organizations funds for wages to cover construction and installation work financed with credit beyond the limits of state capital investments. Under present procedure funds for wages are issued over and above the annual wage fund to associations, enterprises and organizations whose planned capital investments are financed in the institutions of the bank and which are being done by direct labor to the extent of the volume of construction and installation work that is done. Funds over and above the annual wage fund shall in this case be issued when the annual plan of work items is overfulfilled for the enterprise as a whole and when the established wage fund of workers is exhausted. This procedure is set forth in Point 16 of Instruction No 3/46 of USSR Stroybank and USSR Gosbank, dated 4 July 1966.

Funds for wages shall be issued to associations, enterprises and organizations which do not have planned volumes of construction financed in institutions of

USSR Gosbank and done by direct labor on the basis of the wage fund established for that purpose in accordance with Point 85 of the Regulation on the Socialist State Production Enterprise.

The regime in effect for the issuance of funds for wages to cover construction and installation work financed with credit beyond the limit of state capital investments is set forth in Letter No 322 of the USSR Gosbank Board, dated 28 November 1980.

Enterprises shall use the open credit to pay bills for construction and installation work, for equipment and materials for whose delivery the client is responsible.

When the work is done by a contractor, in connection with the transition to settlement for entirely completed projects, borrowers shall transfer funds to the special accounts open for them every 10 days, no later than the 10th, the 20th and the 28th of each month, or once a month (once a quarter) in the proportion corresponding to the share of the planned volume of construction and installation work for the current quarter. Every quarter the balance in the special account shall be adjusted in accordance with the actual progress of work on the project. Surplus funds deposited in the special account and discovered from the results of adjustment at the end of the year shall be applied to reduce the long-term credit actually obtained during the year. Upon completion of the work settlement shall be made for the project from these accounts according to the procedure defined in Instruction No 2 of USSR Gosbank, dated 31 May 1979, and also Guidelines No 108-D/233/318 of USSR Gosstroy, USSR Stroybank and USSR Gosbank, dated 14 November 1980.

Indebtedness under the loans takes the form of scheduled obligations by specific repayment dates after completion of the measure or the project is put into service at an existing cost-accounting enterprise within which production has been expanded or newly organized.

In the year when the project is put into operation the additional profit obtained by the enterprise as a result of the measure's performance and also funds from other sources as determined by the relevant decisions shall be assigned to repayment of the loan. In subsequent years funds to repay the credit must be provided for in borrowers' financial plans. In order to ensure that this requirement is met, it has been established that enterprises submitting the draft of the financial plan to the superior organization for approval must append to it a certificate from the Gosbank institution on the amounts of loans issued and approved for issuance to the end of the year which are to be repaid in the coming year.

The enterprise's settlement with the bank concerning the loan shall be made from its current account (raschetnyy schet). Resources of the production development fund assigned in the established cases to repay the credit shall be transferred by the enterprises to the individual accounts opened in Gosbank or Stroybank as successive transfers of funds are made to that fund.

Bank supervision is an integral element of credit management. Prior supervision is exercised in the performance of credit operations and is aimed at

preventing use of the credit inefficiently or for other than the stated purpose. In making out the credit the bank shall verify, as already noted, the adequacy of the relevant project plans and estimates for the measures to be financed with credit, the quality of that documentation, and also regularity in performance of credit operations.

In exercising subsequent supervision the bank shall check progress in fulfillment of the plan for long-term credit financing in conjunction with fulfillment of the plan of capital investments and the activation of fixed capital and shall take steps for maximum mobilization of credit resources and for their more efficient use, and it shall also analyze progress in attaining rated output at newly activated production capacities.

The information of the bank's engineering staff on the state of affairs at projects under construction has great importance. In accordance with the work plan of the bank institution check measurements are made of construction and installation work at projects being financed with credit. Instruction No 5 of USSR Gosbank provides that when cases of hiking up the volume and value of work done are discovered, bank institutions must take the measures set forth in legislation and must take before the proper authorities the issue of the accountability of the officials responsible.

Checks are to be made on a sample basis of adherence to the work schedule at the project. When it is not met, the bank institution must notify the enterprise of the need to speed up performance of the work and get it back on the schedule established in the plan within 2 months and must report this to its superior organization. If the lag behind the schedule is not made up in that time, the bank institution shall cease further issuance of loans and shall report this to the bank institution that permitted the credit financing so that a decision can be made to call in the loan ahead of schedule or to reinstate issuance of the loan.

Since there may be cases of delay of the activation of projects, the instruction envisages measures of exerting pressure on these enterprises by means of the rate of interest. It provides that if the deadline for completion of the measure is not met, credit financing shall continue, but a higher rate of interest shall be collected, provided repayment of the loan is guaranteed before the end of the maximum period of time for extending credit to finance the given type of outlay. Bearing this requirement in mind, the bank institution that permitted the credit, when the deadline for activation of the project has not been met, shall decide whether to call in the loan or extend credit financing. The rate of interest on the loan when the deadline for completion of the measure is not met is set at the level of 4 percent instead of 2 percent, and 1 percent when the project is completed ahead of schedule (ahead of the deadline by at least 10 percent of the planned construction time). In a case of delinquent indebtedness under the loan, the rate of interest is raised to 8 percent.

Interest on long-term loans is charged once a quarter on the actual indebtedness, and for enterprises in existence the interest charge is collected quarterly.

On new construction projects the interest accruing during the construction period is not collected, but the total amount is added to indebtedness under the loan issued for that construction, and it is repaid together with the principal.

Should the measure be completed ahead of schedule by an existing enterprise, the difference between the amount of interest charged at the rate fixed for the planned date of completion and the amount of interest at the lower rate shall be refunded.

In the course of analysis it is advisable to pay attention to information on the status of capital construction and above all to figures on activation of fixed capital and performance of work items on capital investment projects. These figures are contained in the builder's reports. Along with bookkeeping and statistical reports, active use should be made of the passport of the production association (enterprise), the regulation on which was adopted by the USSR State Committee for Science and Technology, USSR Gosplan, USSR Central Statistical Administration, and USSR State Committee for Standards on 4 October 1979.

In the third chapter, which is entitled "Peculiarities of Extending and Repaying Credit for Particular Purposes and Measures," the specific features are presented of the issuance and repayment of loans paying for themselves within a period of 2 years, loans for development of movie theaters and communications, and also loans for subsidiary farming operations of enterprises, organizations and institutions.

A general peculiarity in organizing the credit financing of highly efficient measures paying for themselves within 2 years and also outlays to develop movie theaters and communications lies in the specific manner in which legal norms are applied to participation of bank institutions in deciding questions of granting this credit.

By contrast with the general conditions for communications and movie theater projects, higher maximum amounts of credit which can be extended for the bank's institutions and offices have been established. At the same time we should note that bank departments have not been granted the right to allow credit for development of the network of movie theaters.

The rights of bank institutions have been restricted in deciding the question of extending credit for measures paying for themselves within 2 years (with the exception of the credit financing of sovkhozes and other state agricultural enterprises). This type of credit is extended to associations (enterprises) and organizations under union-republic, republic and local jurisdiction regardless of the estimated cost of the measure by republic (in union republics) offices of Gosbank up to the amount of the allocated limits on long-term credit financing. Permission for extension of credit to associations (enterprises) and organizations under union jurisdiction is granted by credit administrations of the USSR Gosbank Board within the limits of the plan of USSR Gosbank for long-term credit financing.

Credit permits are issued on the basis of applications of ministries (departments), councils of ministers of union republics, which prepare them on the basis of declarations of subordinate associations, enterprises and organizations.

Before addressing the ministry enterprises must submit to the bank institution serving it all the documentation for obtaining the loan as set forth in Instruction No 5 and shall obtain its conclusion concerning the advisability of issuing the loan.

The requirement that the bank obtain from the borrower's superior administrative agency a letter of guarantee for repayment of the loan is a specific peculiarity of the credit financing of outlays to develop communications and the movie theater network.

To obtain loans for expansion of the movie theater network borrowers must submit to the bank, in addition to the generally established list of documents, the duly approved schedule of work items (intraproject schedule of work items) for the various projects and outlays, a certificate of approval of project plans and estimates and other documents envisaged by the Rules for Budget Financing and Credit Financing of Construction.

The borrowers of long-term credit to develop subsidiary farming operations may in addition to cost-accounting enterprises or subsidiary entities, also be budget-financed organizations and institutions which have special funds from subsidiary farming operations. The special funds are amounts built up from that income of institutions financed from the USSR State Budget which can be spent for specific purposes without going through the income and expenditure sides of the state budget.

Instruction No 5 emphasizes that credit must be assigned first to establishing and developing farms associated with enterprises, organizations and institutions located in remote localities to which it is difficult to deliver farm products as well as in areas being developed where agriculture is underdeveloped.

When a decision is being made on granting a loan, particular attention has to be paid to guaranteeing efficient utilization of production capacities of subsidiary farming operations intended for activation or expansion. To be specific, when livestock-raising facilities are to be built, a check must be made on whether the borrower has the capability of creating the herd and supplying it with feed as well as obtaining the necessary labor resources. At the moment when the product being financed with credit is put into service, the enterprise must have the production capacities that tie in with it, must have the necessary group of agricultural machines for working the land allocated and a facility for servicing them, as well as housing for the workers of the subsidiary farming operation. Only when these matters have been settled can credit be permitted for making outlays beyond the limit of state capital investments.

It has to be pointed out that the decree of the CPSU Central Committee and USSR Council of Ministers dated 4 December 1978 and entitled "On Subsidiary Farming Operations of Enterprises, Organizations and Institutions" ordered councils of ministers of union republics to see that subsidiary farming operations are allotted plots of land, while councils of ministers of union republics, USSR Ministry of Agriculture, USSR Ministry of Procurements and USSR State Committee for Material and Technical Supply to Agriculture were ordered to take steps to meet the needs of those farming operations for quality seed, transplants and seedlings, and young pedigreed livestock. Subsidiary farming operations must be furnished agricultural machines, equipment and spare parts according to the procedure established for sovkhozes and kolkhozes; USSR ministries and departments are committed to introduce for subsidiary farming operations standard organization charts and standard staff size limits established for sovkhozes within the limits of the wage fund and appropriations to maintain the administrative apparatus of the respective ministries and departments.

Enterprises may take short-term credit to cover outlays to create a herd in subsidiary farming operations. Instructions to that effect were issued in Letter No 195 of USSR Gosbank, dated 5 June 1979.

In consideration of the calculation of periods of time for repayment of long-term credit it is indispensable that attention be turned to the correctness of application of release prices on the part of animal husbandry and plantgrowing.

In order to increase the profitability of subsidiary farming operations a decree of the CPSU Central Committee and USSR Council of Ministers dated 4 December 1978 and entitled "On Subsidiary Farming Operations of Enterprises, Organizations and Institutions" provided that the release of meat and also milk for subsidized food service in dining rooms of enterprises, organizations and institutions shall be made at purchase prices in effect. Potatoes and vegetables shall be released by these farming operations for subsidized food service at retail prices after deduction of trade discounts, but if the retail prices after deduction of trade discounts are lower than the respective purchase prices, then at the purchase prices in effect. The difference here shall be reimbursed from the profit of enterprises and organizations, which must be provided for in the financial plans of enterprises.

It should be borne in mind that ministries and departments must envisage in financial plans the respective amounts to reimburse the difference between the purchase prices and retail prices for the products indicated.

In order to verify the soundness of the planned production cost of farm products it is advisable that it be compared to the figures arrived at on sovkhozes and other state agricultural enterprises in the given rayon.

The instruction sets forth the basic principles concerning the credit financing of outlays to organize subsidiary farming operations on a joint participation basis. It states that the borrower may be one of the participating enterprises planning the construction. That enterprise is the sole client for planning the project and construction. In addition, it states that to obtain

a loan the ministries and departments with jurisdiction over the participating enterprises are to submit an overall application to the Gosbank Board, which shall also decide the question of extending the credit. The application must designate the sole client for project planning and construction of the subsidiary farming operation. It shall also state who shall have jurisdiction over that farm and whether it shall operate on the principles of cost accounting or shall become part of one of the participating enterprises. The application must contain information on the shares of the participating enterprises in the labor, physical and financial resources for construction and operation of the subsidiary farming operation.

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INVESTMENT, PRICES, BUDGET AND FINANCE

PROBLEM OF DETERMINING SOCIAL VALUE IN PRICES EXAMINED

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[Article by Candidate of Economic Sciences, V. Tarasov from Minsk: "On the Formation of Social Value and the Prices for the Implements of Labor"]

[Text] The "Basic Directions for the Economic and Social Development of the USSR for 1981-1985 and for the Period Up to 1990" adopted by the 26th CPSU Congress posed the task of "strengthening the incentive effect of wholesale prices on improving product quality and accelerating the development of new highly efficient equipment and replacing the obsolete...."¹

The current price formation mechanism for new equipment to a significant degree is based upon the use of the incentive function of the price for creating and employing new efficient products.² For this the lower and upper price limits are calculated³ as are the amount of the annual economic effect from the production and use of the new equipment and the distribution of this effect between the producer and consumer in accord with the "Procedure (Basic Provisions) for Determining the Economic Effectiveness of Employing New Equipment, Inventions and Rationalization Proposals in the National Economy" (1977). In encouraging the use of new equipment an important role should also be played by a reduction in the price for the new equipment calculated per unit of useful effect in comparison with the article adopted as the base one or the one to be replaced. It is assumed that such a price formation mechanism should interest the producer in manufacturing new equipment, since it should cover all the expenditures on production and obtain a profit in the normed amount and, in addition, also above-norm profit in the form of a surpayment from the portion of the economic effect earmarked for it. The consumer of the new equipment should also be interested in its use as it is provided that it also will receive a portion of the economic effect.

However, management practices show that the mutual interest of the producers and consumers in the constant technical upgrading of production is a far from real one. There are numerous examples of the reticence of some to produce and others to employ new machines regardless of the fact that they are being sold at prices on a level above the lower and lower than the upper limits. At the same time the existing mechanism for forming prices for new equipment means that at present in setting them consideration is given not only to the expenditures on producing the equipment but also the economic effectiveness of its

use. On this question the "Procedures...." (1974) state: "Prices for new products are determined, as a rule, in terms of the current price level considering the economically sound expenditures on production and the effectiveness of employing the new articles and materials in the national economy in comparison with the previously developed ones."⁴ This is due to the fact that "the prices constructed in accord with the level of production expenditures and not correlated to the economic effectiveness of the product in consumption will not carry out sufficiently fully their functions as an important economic guideline in selecting planning solutions."⁵

But what does it mean to consider not only the expenditures on producing the product but also the economic effectiveness of its employment? In essence, such consideration, as was pointed out by Yu. V. Borozdin, presupposes the formation of socially necessary labor expenditures (SNLE) in terms of the conditions of producing and employing the product.⁶ Yet the influence of the conditions of not only producing the product but also its consumption on price formation is that "the socially necessary labor expenditures on the given product are formed in the system of the aggregate expenditures of society on satisfying social needs."⁷ With such a content, the inner basis of the SNLE is the expenditures of live and embodied labor so that the product in the production process not merely assumes the property of consumer value but also reaches the required level, that is, it has attained a quality which is preferential for the consumer. For this reason, consideration of the economic effectiveness of a product in price formation means nothing more than the *necessity of forming expenditures per unit of the product's consumer value*. The actual orientation to the amount of value as such should more and more be restricted to production itself as it is also the sphere of the functioning of this value.⁸ In order to consider the effectiveness of machines in price formation, it is essential to take into account the multiplicity of the manifesting of their forms of consumer value. The primary (physical-material) form of manifesting consumer value for the implements of labor is related to the quantity of product (work) which it is capable of carrying out together with live labor. This form of realizing the consumer value of machines is the determining one. It is directly linked to their productive capacity and service life. These two factors ultimately determine the savings of labor for the consumer of the equipment. For this reason, the saving of labor is the secondary (derivative) form of realizing the consumer value of the machines. At the same time, the consumer value of new machines influences a change in the social production conditions. The social form of realizing consumer value will be more advanced, with other conditions being equal, the more significantly the performance of the new machine exceeds the demands made on the equipment by the average objectively existing labor conditions.

However, the question arises: In what manner consumer value of machines influences the SNLE level and what place is taken by consumer value in the mechanism of the forming and movement of social values for the products of labor? For elucidating this question it is essential to examine the stages of forming social value. The proportional distribution of labor over the spheres of production is the first stage in this process. Here consumer value for the mass of products influences the amount of the quantity of labor needed for a certain production sector.⁹ In line with this, in a socialist economy the level of

social value is most determined by the individual expenditures of the enterprises which produce one or another product in accord with the national economic plan. For this reason, the second stage of forming social value expresses the dependence upon the amount of individual values for the product satisfying the same need. In the given stage, as in the first, the consumer value of a unit of product still does not determine the final amount of social value since here it is still a question of individual labor expenditures. In the designated stage, a situation develops where the level of social value is crucially influenced by the individual expenditures of the producer enterprises and where occur the highest proportional amount in the total output of the given product. Yet the individual labor expenditures (individual values) for producing a unit of product depend primarily upon the technical level and the organizing of the production process at these enterprises, that is, upon factors contributing to a rise in labor productivity. But here it is essential to bear in mind that "the value of any commodity is determined by that working time which is needed for producing a good of normal quality."¹⁰ For this reason, labor expenditures on producing a product which has not gained social employment due to poor quality are wasted although their amount does influence the overall amount of working time embodied in similar consumer values.¹¹ Ultimately, these expenditures are apparent in the forming of both the individual and social value of a unit of product.

However, this does not mean that the product which possesses a higher consumer value in comparison with a "normal one," always effects the amount of individual value. Such a situation is valid if the process of upgrading the article involves a change in the expenditures influencing the formation of the level of consumer value. In other words, the latter effects individual value through the expenditures required for obtaining the various properties of a product in line with the appearance of social value in them. The immediate practical employment of the amount of individual value is related to solving "the question of whether or not a given thing should be produced at all, that is, does its utility cover the production outlays.... If the production outlays of two things are the same, then utility will be the crucial aspect in determining their comparative value."¹² This comparative value expresses nothing more than the social value of the product of labor. Correspondingly, individual value, as an embodiment of the expenditures of individual abstract labor, determines merely the potential proportion of exchange in the produced products.

For this reason, the third (final) stage in the formation of social value reflects the differences in the consumer values of a uniform, interchangeable mass of products of labor. At this stage, the consumer value of a product begins to influence the process of the distribution of labor expenditures proportionately to their contribution to satisfying demands while the social value of a unit of product operates as a portion of the expenditures of abstract labor required for producing the entire volume of product having a uniform (functionally interchangeable, if one is speaking about implements of labor) consumer value. In following what has been stated, one cannot help agree that the formation of the socially necessary labor expenditures "is carried out for each interchangeable product outside the immediate dependence upon each group of commodities interchangeable with it, that is, as for a noninterchangeable commodity."¹³

As has been noted by a number of economists,¹⁴ the ever-wider spread of the interchangeability of labor products under the conditions of scientific and technical progress cannot help but make adjustments in the mechanism of forming the SNLE. The formation of the SNLE for an individual, even a noninterchangeable, product is also related to how the SNLE for other types of products are formed. As was stated above, here the proportional distribution of labor over the production spheres and the process of the forming of the total amount of individual labor expenditures primarily influence the aggregate consumer value of the products from the individual production spheres (sectors).¹⁵ For this reason, the amount of labor expenditures forming the level of the social value of an individual product is determined also by its importance in satisfying a specific demand. In other words, the process of forming the social value of a labor product cannot be viewed in isolation from the influence which the consumer value of the given product has on the degree of satisfying the social demand for it. In a formalized form, this process can be expressed in the following manner:

$$PV = \frac{\sum_{i=1}^n IV_b + \sum_{j=1}^n IV_n}{\sum_{i=1}^n CV_b + \sum_{j=1}^n CV_n}, \quad (1)$$

$$SV_b = PV \cdot CV_b, \quad (2)$$

$$SV_n = PV \cdot CV_n, \quad (3)$$

where PV--the proportional value of a unit of product (work) manufactured with the aid of the base and new equipment;

IV_b , IV_n --individual value, respectively, of the base and new equipment;

CV_b , CV_n --consumer value of the base and new equipment;

SV_b , SV_n --social value of base and new equipment.

Thus, by dividing the total individual value (in the given case, it possibly would be more correctly called incomplete social value) of the implements of labor by their aggregate social value we can determine the proportional value of a unit of consumer value, that is, the quantity of social labor per unit of consumer value for the new and base equipment.¹⁶ But the social value of the new or base equipment is determined by multiplying the proportional value of a unit of consumer value by the amount of consumer value of the (new or base) machine.¹⁷ Here we will observe an equality between the totals of the aggregate social and individual values of the given implements of labor. This presupposes the encouraging of the producers of new equipment, as the manufacturer of the product where the labor expenditures per unit of consumer value are lower receives additional profit from the difference between the social and individual value of this product.

The designated mechanism for the formation of social value is also valid for the price, since "the price of a individual commodity = $\frac{\text{aggregate product price}}{\text{total quantity of product}}$ "

that is, the aggregate price divided by the *total amount of product which is measured by different measures respective to the consumer value of the product.*"¹⁸ However, it must be pointed out that price formation practices somewhat one-sidedly employ the mechanism of creating a social value for the products of labor. At present, as a rule, the prices of new articles are being brought closer to social value by employing surpayments, while reductions in the prices of the base (to be replaced) product are employed extremely rarely.¹⁹ At the same time, it would be methodologically correct, with equal expenditures for obtaining the consumer value of a differing level, to increase the price employing a surpayment for a higher quality article and reducing this for a poorer quality product (employing a reduction), since "the value of an individual product is determined by the entire produced value divided by the number of products and only as such a corresponding part of aggregate value does an individual product become a commodity."²⁰

In forming prices for machine-building products, consideration of the increased effectiveness of new equipment or reduced effectiveness of old corresponds to the requirements of the theory of labor value. This means that the determining of prices for the products of labor is dependent upon the conditions of their reproduction and the requirements of the forming of socially necessary labor expenditures per unit of product consumer value. Consequently, in a general form the model of a price for a machine building product can be expressed by the formula:

$$P_s = P_{11} \pm E_{1,2}, \quad (4)$$

where P_s --sale price;

P_{11} --the lower limit of the equipment's price;

$+E_1$ --surcharge on price for new equipment;

$-E_2$ --reduction in price for base (to be replaced) equipment.

The amount of the surcharge or reduction, at present, is determined in accord with the "Instructions...." (1979). The surcharge to the price for new highly effective products is set within the limits of from 50 to 125 percent of the normed profit but should not exceed 70 percent of the annual economic effect. If the product has been awarded the Quality Mark and its production is based on developments which in the established procedures have been judged discoveries or inventions, the amount of the surcharge is increased by 1.5-fold. If the articles are in the second quality category or the planned date for their certification has passed, a reduction amounting to 50 percent of the total profit obtained from the sale of the given product is set on their wholesale prices. With the passage of the time for removing the second quality category product from production, the amount of the reduction is increased up to 100 percent of the total profit.

We feel that there must be a further economic study of the norms employed here. For example, it is not completely theoretically clear why the exceeding of the economic effect by 15 percent over the wholesale price is the minimum limit for setting a surpayment amounting to 50 percent of the amount of the normed profit. Attempts to represent this restriction in the form of a lower limit for the effectiveness of the new product cannot be considered convincing for the reason that this violates the principle of comparing the savings and expenditures as

adopted in the theory of capital investment effectiveness. In the given methodological approach to determining the surcharges and reductions, the task has also not been set of balancing them, at least on the level of the enterprises or sectors if not on the level of the individual product groups. The economic effect upon which the surpayment is based is calculated in accord with the "Procedure (Basic Provisions.....)" (1977) and to a significant degree is the hypothetical, potential effect. But a surcharge set on the price of a new product is quite tangible and its impact on the economic activities of the enterprises is rather felt. It is also characteristic that the surcharge can be set even in the instance when the price for the new equipment exceeds the price of the old (to be replaced) model to a much greater degree than the increase in productivity provided by the new equipment.

The rather frequently observed instances of a substantial exceeding of the price over the growth of the productivity of new machines²¹ to a significant degree are the result of weak economic control by society over the activities of the producer enterprises. In practice the consumers of the product do not economically determine the activities of the manufacturer enterprises for the new equipment and agree to any price level if it is less than the upper limit. Ultimately, this leads to an increase in the costs of the product produced with the aid of the new implements of labor. Such a situation is explained by the fact that the upper price limit which should ensure equal advantage for the use of the new and base equipment in fact does not realize its purpose since its level is significantly determined by the savings in current outlays and ancillary capital investments by the consumer. This savings rather often is not realized in the sphere of consuming the new equipment, as it is a derivative from a change in the productive capacity of the machines.²² However, in calculating the upper price limit, the savings in current use outlays is made directly dependent upon a change in the productivity of the new equipment. At the same time, a change in current outlays for the consumer is not directly proportional to the growth in the productivity of the implements of labor. This dependence is more complex and it should reflect the mechanism of forming the prices for the new machines. The absence of a real savings does not lead to a reduction in the expenditures on manufacturing a unit of product for the consumer, but rather, on the contrary, helps to increase it. This is manifested primarily through the amount of amortization deductions for a unit of product (work) produced with the aid of the new equipment, since the conditional capitalized savings is not compensated for by an increase in the amortization deductions per unit of product.

The existing instances of the more rapid growth in the price for new equipment, in comparison with the growth of its productivity, are sometimes due to incorporating the increased expenditures from the period of developing the new products in their cost and later on in the wholesale price. For compensating for these expenditures, the task has been posed of utilizing money from the unified scientific and technical development fund (YeFRNT). But the price formation mechanism, in our view, should not be excluded from this stage in managing the process of producing new equipment,²³ although it could play a positive role in limiting expenditures for its development. It is advisable to utilize a system of dual prices in the period of developing series production of the new products. One price level should reflect the conditions for fully developed production and the second ensure the recovery of the economically justified

additional expenditures related to the development of the new products.²⁴ The validity of utilizing dual prices is based on the fact that, in the first place, the increased expenditures of labor, material and financial resources, in being in their essence socially justified, should be recovered by the producer enterprise; secondly, the temporary additional expenditures in the development period should not influence the price level at which the product is sold to the consumer at the given moment. Obviously, the use of the dual price mechanism presupposes a limiting of expenditures for the producer and consumer of the new equipment and at the same time the recovery from the sectorial YeFRNT of the additional expenditures related to the development of series production (the difference between the price for the producer and the price for the consumer). With such an approach the dual price mechanism should encourage the development of highly efficient machines by the producer.

However, up to the present the calculated levels of the dual price mechanism have not yet been theoretically sound. This question should be settled considering the reconciling of the interests of the producers and consumers of the new products. Thus, theoretically it is correct to have a situation where the consumer would be interested in employing the new implements of labor in the instance that they are absolutely or relatively cheaper than those to be replaced. An absolute reduction in the cost of new equipment presupposes the setting of a price for it which would be below the price of the base model. However, it is not always possible to achieve an absolute reduction in the cost of new types of implements of labor since an improvement in their quality requires, as a rule, additional expenditures of labor and material resources. For this reason, the setting of prices on a level ensuring a relative reduction in the cost of the new equipment is of particular importance for encouraging its use.²⁵

Of decisive significance in reducing the cost of new machines is a rise in their productivity, and to a somewhat lesser degree, a rise in the service life. Hence it follows that the price level for the consumer should reflect the conditions of fully developed production. The price should be calculated on the basis of expenditures for series production of the new equipment ensuring, as a minimum, a relative reduction in costs which is the result of increased productivity and lengthened life of the new machine. Actually the price level for the consumer of the new equipment should be determined in the following manner:

$$P_{con} \leq P_b \cdot a_p \cdot a_t, \quad (5)$$

where P_{con} --price for consumer in period of developing series production of new equipment;

P_b --price of base (to be replaced) equipment;

a_p --coefficient for ratio of productivity for new and base equipment;

a_t --coefficient for ratio of the life of the new and base equipment.

Limiting the expenditures for the manufacturer during the period of developing the series production of new implements of labor by condition (5) is valid for the reason that a situation is provided where there will be no increase in the cost of the product produced with the new equipment. Here the righthand side of inequality (5) will in practical terms represent the limit price set without considering the savings in current expenditures and the ancillary capital.

investments for the consumer. But the price for the producer in the period of developing series production of the new equipment should meet the condition

$$P_{pr} \leq P_b \cdot \alpha_p \cdot \alpha_t + E, \quad (6)$$

where P_{pr} --the price for the producer during the period of developing series production of the new equipment;

E --the savings of labor calculated for the period equal to the period of developing series production of the new equipment.

The fulfillment of condition (6) means that compensation for the difference between the price for the producer and the price for the consumer from the sectorial fund for covering increased expenditures during the period for developing new equipment will not lead to increased cost of the product (work) produced in employing the new implements of labor. In the event that the producer, in the stage of developing series production of the new equipment, exceeds the normed expenditures for one article as expressed by inequality (6), it should cover the above-norm expenditures from its own sources or by outside credit.

FOOTNOTES

- ¹ "Materialy XXVI s"yezda KPSS" [Materials of the 26th CPSU Congress], Moscow, 1981, p 199.
- ² See: "Procedure for Determining Wholesale Prices for New Production and Technical-End Products" (1974) and "Instructions on the Procedure for Setting Incentive Surcharges on Wholesale Prices for New Highly Efficient Production and Technical Products and Reductions on Wholesale Prices for Products of the Second Quality Category As Well As Products Which Have Not Been Certified Within the Stipulated Time" (1979).
- ³ In accord with the "Procedure...." (1974), the upper price limit is to be used for calculating the limit price, the economic effect to be distributed and the amount of the surpayment. With the appearance of the "Instructions...." (1979), the upper price limit began to be used only for setting the limit price. These "Instructions...." also introduced substantial adjustments in the mechanism for determining the surcharges and reductions.
- ⁴ "Procedure for Determining Wholesale Prices for New Production and Technical-End Products," Article 1.
- ⁵ Yu. V. Borozdin, "Tsenoobrazovaniye i potrebitel'naya stoimost' produktsii" [Price Formation and Consumer Value of Products], Moscow, 1975, p 18.
- ⁶ See: Ibid., p 19.
- ⁷ D. M. Kazakevich, "Narodnokhozyaystvennyye zatraty v planirovanii effektivnosti proizvodstva" [National Economic Expenditures in Planning Production Efficiency], Moscow, 1979, p 29.

- ⁸ See: K. Marx and F. Engels, "Soch." [Works], 2d Edition, Vol 1, p 553.
- ⁹ See: Ibid., Vol 25, Part II, pp 185-186.
- ¹⁰ Ibid., Vol 23, p 184.
- ¹¹ See: G. T. Kovalevskiy, "The Payment for Production Capital," in the book "Formy chistogo dokhoda pri sotsializme" [Forms of Net Income under Socialism], Minsk, 1973, p 203.
- ¹² K. Marx and F. Engels, "Soch.," Vol 1, pp 552-553.
- ¹³ V. Novikov, "Methodological Problems in Determining Prices for Interchangeable Types of Raw Products and Materials," in the book: "Voprosy sovershenstvovaniya tsenoobrazovaniya na vzaimozamenyayemuyu produktsiyu" [Questions of Improving Price Formation for Interchangeable Products], Moscow, 1975, p 4.
- ¹⁴ See, for example: A. A. Deryabin, "Tseny i potrebitel'skiye svoystva predmetov truda" [Prices and Consumer Properties of Subjects of Labor], Moscow, 1973, p 8; V. I. Aleksandrov, "Metodologicheskiye problemy obosnovaniya tsen na novuyu tekhniku" [Methodological Problems in Setting Prices for New Equipment], Leningrad, 1978, p 9.
- ¹⁵ "The Law of Value in Actuality is Manifested Not in Relation to Individual Commodities or Articles, But Rather Each Time in Relation to the Entire Aggregate of Products..." (K. Marx and F. Engels, "Soch.," Vol 25, Part II, p 185).
- ¹⁶ In this regard, we must recognize as completely valid the comment by G. N. Khudokormov that "social labor spent on the production of goods can be fully related to the amount of the useful effect obtained from the consumption of these goods and calculated per unit of this effect" (G. N. Khudokormov, "Obshchestvennaya stoimost' i zakupochnyye tseny" [Social Value and Purchase Prices], Moscow, 1973, p 186).
- ¹⁷ In the given instance "there is a dual dependence of the SNLE: on the one hand, upon the total volume of expenditures of abstract labor on producing the entire mass of the given type of product and, on the other, upon the level of the consumer quality of each specific article comprising the analyzed aggregate of a functionally uniform product. Having determined what it costs to obtain a unit of useful effect of the given type of product and what is the level of utility for the specific article, by multiplying these indicators we will find its SNLE" (V. I. Aleksandrov, op. cit., p 85).
- ¹⁸ K. Marx and F. Engels, "Soch.," Vol 49, p 27 (the word "price" is given in italics by K. Marx, the further italics are ours.--V.T.).
- ¹⁹ The elimination of this price formation shortcoming is the purpose of implementing the Decree of the CPSU Central Committee and USSR Council of Ministers of 12 July 1979 "On Improving Planning and Strengthening the Effect of the Economic Mechanism on Raising Production Efficiency and Work Quality"

(see: "Sovershenstvovaniye khozyaystvennogo mekhanizma. Sbornik dokumentov" [Improving the Economic Mechanism. A Collection of Documents], Moscow, 1980, pp 29-30).

- 20 K. Marx and F. Engels, "Soch.," Vol 26, Part III, p 113.
- 21 For example, the "ATPR-100-2U loom is is 4-fold more expensive than the AT-100-5M loom, but its productivity has been increased by only 1.5-fold. There is an analogous ratio for these indicators also for spinning machines" (see: Ye. Kapustin and P. Sedlov, "Due to Reconstruction," PRAVDA, 18 August 1981, p 3).
- 22 Thus, "as an average for machine building, of the five factors determining the effect, more than 60 percent is due to the savings in current operating expenditures for the consumer of the new equipment, including for the sector of agricultural machine building with more than 75 percent which seems greatly inflated" (R. Gumerov and Z. Tresorukova, "Setting Prices for the Means of Production," EKONOMIKA SEL'SKOGO KHOZYAYSTVA, No 12, 1979, p 32).
- 23 At present, actually only the limit price formed on the basis of the upper price limit and reflecting its shortcomings fully is used in the price formation mechanism during the period of developing series production of new equipment.
- 24 In the economic literature, the question has been repeatedly raised of the validity of using the dual price mechanism in the period of developing series production of new equipment (see, for example: Yu. P. Avdiyants, "Crediting Expenditures as a Factor for the Technical Renewal of Production," in the book: "Finansy i nauchno-tehnicheskii progress" [Finances and Scientific-Technical Progress], Moscow, 1973, pp 173-174; D. A. Allakhverdyan, "Finansovo-kreditnyy mekhanizm razvitogo sotsializma" [The Financial-Credit Mechanism of Developed Socialism], Moscow, 1976, p 208; I. N. Lazarev, "Finansirovaniye nauchno-tehnicheskogo progressa (nekotoryye voprosy teorii i metodologii)" [Financing Scientific-Technical Progress (Certain Questions of Theory and Methodology)], Moscow, 1980, p 90). Academician L. Kantorovich feels it advisable to construct a dual price mechanism in such a manner "that the consumer would pay for the product according to its economically normal, future price while the first producer from the centralized funds would receive a higher (calculated) price for it making production sufficiently advantageous" (L. Kantorovich, "The Achievements of Economic Science in Practice," EKONOMICHESKAYA GAZETA, No 26, 1974, p 14).
- 25 In the most general form, by a relative reduction in the cost of machines one understands "such a state of affairs where the absolute value of the mass of machines to be employed increases but not to the degree that the mass of these machines and their efficiency are increased" (K. Marx and F. Engels, "Soch.," Vol 26, Part III, p 228).

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INVESTMENT, PRICES, BUDGET & FINANCE

IMPORTANCE OF FISCAL ORGANS TASK STRESSED

Moscow FINANSY SSSR in Russian No 6, May 82 pp 3-6

[Unsigned article: "An Important Task of the Fiscal Organs"]

[Text] Our country has entered upon the second year of the 11th Five-Year Plan. The economic results for 1981 point to a successful course of the fulfillment of the program for the economic and social development of the USSR drafted by the 26th CPSU Congress, which provides a solid foundation for attaining new and still higher results in the present year. The main tasks of the 1982 plan and budget reflect the party's course toward the further increase in the effectiveness and intensification of social production on the basis of accelerating the rate of technological progress, utilizing the production potential more efficiently, maximally conserving all kinds of resources, and improving the quality of performance in every branch of the economy and, on this basis, increasing the national income and the revenues of the state.

As ratified by the 6th session of the USSR Supreme Soviet of the 10th Convocation, the 1982 USSR State Budget completely assures with the necessary financial resources the implementation of the measures intended to develop the economy, further improve the national welfare of the Soviet people, and strengthen the country's defense capability. The budget assigns 173.9 billion rubles for financing the national economy or, together with the outlays to be made by the enterprises and organizations themselves plus bank credit, 328.9 billion rubles. For socio-cultural measures the budget allocates 106.9 billion rubles compared with 101.9 billion in 1981. For new major centralized measures to improve national welfare as envisaged in the decisions of the 26th CPSU Congress, the budget allocates more than 4 billion rubles.

A great responsibility for ensuring with financial resources the grandiose program of economic and cultural construction is placed upon the fiscal organs, which are expected to mobilize in a timely and complete manner the funds provided for in the budget, as well as to explore additional sources of revenues and ensure an economical and effective utilization of the resources allotted by the state. In 1982 the budget should receive 322 billion rubles of revenues, of which 110.5 billion from turnover tax and 93.3 billion from profit deductions. The increase in revenues is to be based on the further increase in the output and sales of goods and reduction in their production cost. That is why the utilization of production potential and conservation of resources should become the principal directions of activity of the fiscal organs. They should improve the style and methods of their activities, resolutely eliminate shortcomings, combat mismanagement and waste, and meet the great requirements posed by the party and government to the fiscal system.

This has been the subject of businesslike discussions at the general meetings of collegiums and conferences of the aktiv of the Union republic ministries of finance that had been held early this year to consider the fulfillment of the budgets for the preceding years and outline measures to eliminate the existing shortcomings. Great attention was devoted to the tasks that have to be accomplished by the fiscal organs in order to fulfill the 1982 USSR State Budget. Higher socialist pledges were adopted to fulfill and overfulfill the budgetary revenues and spend Treasury funds economically. The task is to fulfill the socialist pledges.

Even now it is necessary to introduce an effective and systematic monitoring of the course of fulfillment of the budget, trace the inflow of all kinds of revenues, and introduce thrift and economy in operations. The possibilities for overfulfilling the plan tasks as regards the national economy do exist. This is demonstrated by, among other things, the fact that in 1981 the fiscal, planning, and economic organs developed and introduced measures to produce an additional 1.4 billion rubles of consumer goods which served to increase the state's revenues by more than 0.5 billion rubles.

This year the efforts of the fiscal organs should be focused on ensuring the timely and complete inflow of payments from every association, enterprise, and organization to the budget. Strengthening the payments discipline is a most important task which must be accomplished in order to fulfill the plan of state revenues. The fiscal organs should be more demanding toward the heads of enterprises and economic organizations as regards the promptness and completeness of payments to the budget. The USSR State Budget is the law, and every enterprise and organizations is obligated to obey all of its provisions precisely and directly, to pay promptly and its full what it owes to the budget, and to be thrifty and careful in expending funds. Whenever arrears occur, it is important to investigate their causes and take steps to eliminate them as well as to prevent their future reappearance.

Of great importance to implementing the tasks posed to the fiscal organs is the plan of their economic and monitoring activities. It focuses attention on the decisive sectors of activity and serves to organize properly and utilize most effectively the cadres of experts and to coordinate efficiently the efforts of the various elements of the apparatus. The fulfillment of the planned measures will contribute to the full implementation of the budget, the detection and mobilization of economic reserves, and the thrifty and economical expenditure of Treasury funds.

Special attention should be devoted to increasing the production of consumer goods, bearing in mind that this will greatly affect the fulfillment of the task, posed by the 26th CPSU Congress, of further increasing the welfare of the Soviet nation. In this connection, the fiscal organs should ensure systematic and effective monitoring of the activation of new enterprises of the light, food, and meat-and-dairy industries. The local authorities and superior organizations should be promptly notified about any shortcomings detected in the construction of these highly important economic projects, to ensure their on-schedule completion. Every possibility should be exploited to increase the output of consumer goods at the existing enterprises.

The pertinent proposals of the fiscal organs should be oriented toward a fuller and efficient utilization of raw and other material resources (reduction of wastes and their improved processing, supplying industry with the needed raw materials), in-

creased effectiveness of the existing production capacities, and exploration of the potential for increasing further the output of high-quality consumer goods in the necessary variety in order to prevent the rise of unsalable inventories.

The fiscal organs should do all this in cooperation with the planning and economic organizations, not episodically but regularly, on a day-to-day basis, promoting the implementation of the proposals to increase the output of goods and improve their quality. This will ensure the fulfillment of the most important task--the production and supply in 1982, as in the preceding years, of consumer goods in excess of the plan targets.

Proceeding from the demand of the 26th CPSU Congress for a more economical economy and in accordance with the decisions of the November (1981) CPSU Central Committee Plenum, the plan and budget for 1982 provide for concrete measures to ensure a more economical and thrifty utilization of material, manpower, and financial resources. Plans exist to reduce the material-intensiveness and cost of production, cut unproductive expenditures and losses due to defective products, and utilize secondary raw materials more fully. In addition, targets have been established for reducing the turnover of liquid assets, which is a major factor in an efficient utilization of material resources and increase in income and revenues to the state.

The 1982 plan and budget envisage saving 1.2 billion rubles in industry through a reduction in consumption norms and the elimination of unproductive expenditures and losses of electrical energy, fuel, metal, and other materials, as well as drawing 1 billion rubles into economic turnover through a reduction in the turnover of liquid assets and in excess inventories of market goods and material resources.

Pursuant to the decree of the CC CPSU and the USSR Council of Ministers "On Intensifying the Work on the Conservation and Rational Utilization of Raw, Fuel-Energy, and Other Material Resources," the associations, enterprises, and organizations should introduce additional organizational-technological measures to further reduce material expenditures per output unit, which should ensure additional savings of at least 1-1.5 percent in production cost as compared with its 1980 level. Real savings of material and financial resources are a major direction which ensures a reduction in the cost of production, operations, and services, and which in 1982 should become the object of universal attention and concrete action by the fiscal organs and economic organizations. It is a task of the employees of the fiscal system to increase the level of economical operation on orienting it toward a more effective utilization of resources in the national economy and elimination of unproductive expenditures and waste.

As shown by the verification of the timeliness and pertinence of the adjustment of plan indicators for 1982, conducted at the end of 1981, certain associations, enterprises, and organizations still have not adjusted their activity. In a number of cases the tasks for saving material resources do not meet the requirements ensuing from the approved plan for economic and social development. The verification revealed instances in which the norms for the consumption of material resources per output unit approved for 1982 exceed their 1980-1981 counterparts. At a number of enterprises the adopted tasks for the conservation of resources have not been reinforced by organizational-technological measures and substantiated by calculations.

The fiscal organs should be more strict in demanding of the heads of associations, enterprises and organizations that they observe the regime of conservation in the spending of material resources, and utilize more fully their rights to intensify the monitoring of the financial and economic performance of these units.

A successful exploitation of internal economic potential largely depends on improved financial planning, an economically justified quarterly-basis allocation of yearly targets, and increase of responsibility for the fulfillment of production and financial plans. The latent potential here is tremendous. As shown by the findings of inspections, at many enterprises in 1981 the targeted basic economic indicators for the first one or two quarters of the year were too low. This had created the appearance of satisfactory progress, but toward year end the plan turned out to be underfulfilled and the enterprises not infrequently requested a reduction in their tasks.

Certain ministries and departments do not adequately substantiate the manner in which they allot tasks to their subordinate enterprises and associations, and not infrequently allot lighter tasks to some of these. As a result, the plan targets are markedly overfulfilled. Only this can account for the fact that 50 percent of the enterprises of the USSR Ministry of Forestry Industry had overfulfilled their plan for the first 9 months of 1981 by more than 13 percent whereas the All-Union Furniture Association [Soyuzmebel'] had overfulfilled by a factor of more than 5 its plan of payments to the budget.

The superior organizations continue to revise plan indicators on a year-round basis, often without revising correspondingly other associated indicators. The fiscal organs should strengthen their monitoring of the validity of such revisions, whose sole purpose is not infrequently to speed up the plan so that it is officially fulfilled, to make the plan seem officially fulfilled. Operative steps should be taken to put an end to such instances.

At the November (1981) Plenum of the CC CPSU capital construction was called a decisive sector of the new Five-Year Plan. In his speech at the Plenum comrade L. I. Brezhnev pointed to an important feature of the new Five-Year Plan and the 1982 Plan-- the marked increase in the activation of fixed assets and production capacities despite the lower growth rate of capital investments by the state. This serves to ensure a higher concentration of capital outlays on the projects and facilities scheduled for more immediate completion, and to improve balancing these outlays with the available material resources, the capacities of construction organizations, and the available manpower.

The 1982 plan provides for investing a total of 137.4 billion rubles in development of the national economy. Of this total, the state will provide 121.6 billion rubles. The effectiveness of utilization of these outlays will largely affect the increase in national wealth and, on this basis, the steady growth of the welfare of the Soviet people.

The employees of the fiscal and banking system should be more active in mobilizing sources for financing capital construction. The planned measures regarding capital construction and the growing importance of that branch in increasing the effecti-

veness of production require of the fiscal organs that they strengthen their monitoring of the utilization of the allotted funds and the concentration of material, manpower, and financial resources on decisive sectors of construction, as well as the assurance, on this basis, of the main task of capital construction--the fulfillment of targets to put production capacities and facilities into operation.

More work also should be done to improve the financial and credit mechanism so as to strengthen its stimulating effect on the attainment of end-results in capital construction by providing conditions that would motivate all participants in the construction process (designers, customers, subcontractors, equipment suppliers) to take active measures to increase its effectiveness.

In 1982 the fiscal organs are to finance a broad program of socio-cultural measures. The state budget allots one-third of all expenditures on this purpose. It is important not only to ensure the allocation of all the specified outlays but also to implement preliminary and current monitoring of the rational utilization of the allotted funds in accordance with actual needs. It is necessary to intensify the struggle against all kinds of excesses in the utilization of funds and ensure a strict observance of state discipline.

As shown by the findings of audits, not all educational, public health, and social services institutions manage efficiently their financial and material assets--not infrequently illegal excessive expenditures of the allotted funds are tolerated, as are instances of crude violations of the financial discipline. Consider for example such an indicator as the utilization of hospital beds in public health institutions. In a number of hospitals this indicator remains low, which not only reduces the volume of medical assistance to the population but also causes economic losses to the state, since the cost of the upkeep of an unoccupied bed averages about 5 rubles daily. Calculations show that improved planning of the utilization of hospital beds would make it possible to hospitalize about 200,000 more people daily in the country as a whole.

Certain institutions employ additional staff in excess of their tables of organization, pay incorrectly calculated wages and salaries owing to excessively high wage and salary deductions for various fees, include in their cost estimates unnecessary expenditures, and commit other violations. Strengthening the monitoring of the validity and effectiveness of the utilization of allotted funds for financing socio-cultural measures is a primary task. The fiscal organs should always bear in mind that they are responsible for the purposive and economical utilization of funds from the state budget.

Aspects of the course of budget fulfillment should be regularly considered by the collegiums of the Union and autonomous republic ministries of finance as well as at conferences of the heads of fiscal organs. It is necessary to draft and introduce proposals intended to ensure the fulfillment and overfulfillment of budgetary revenues and observe thrift and economy in the utilization of state funds. It is necessary to strengthen the monitoring of not only budget allocations but also of the resources of the association, enterprise, or economic organization itself, so that they would be utilized rigorously according to targeted purposes and in measure with the fulfillment of production indicators. Any attempts to divert state funds for unplanned, ineffective, and secondary measures should be interdicted.

An important prerequisite for fulfilling and overfulfilling the planned 1982 budget is a sweeping socialist competition among the fiscal organs to greet in a worthy manner the 60th anniversary of establishment of the USSR. The fulfillment and overfulfillment of the 1982 USSR State Budget is a responsible and honorable task to the employees of the fiscal system. There is no doubt that this task shall be accomplished and the fiscal organs shall thereby make a worthy contribution to the fulfillment of the historic decisions of the 26th CPSU Congress.

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REGIONAL DEVELOPMENT

BELORUSSIAN MVD OFFICIAL'S COMMENTS

Minsk SOVETSKAYA BELORUSSIYA in Russian 20 Jul 82 p 2

[Article by Chief of the Main Administration for Combating the Embezzlement of Socialist Property and Speculation of the Belorussian SSR MVD N. Sobol': "The Audit. Form and Content"]

[Text] The article of Belorussian SSR Minister of Finance B. Shatilo "The Audit... After the Audit," in which the improvement of control and auditing work was discussed, was published in SOVETSKAYA BELORUSSIYA on 26 February of this year. On 26 May the newspaper published the response to it of Candidate of Economic Sciences T. Zhurov entitled "Whose Auditor or How Do They Audit?" The editorial board invited the readers to continue the discussion on this theme. Today we are publishing the article of Chief of the Main Administration for Combating the Embezzlement of Socialist Property and Speculation of the Belorussian SSR MVD N. Sobol'.

The present level of the economy requires the persistent improvement of the mechanism of its management. Any, even the most minor error and discrepancy lead to great losses and costs and to the sharp decrease of the efficiency of social production. Economic monitoring, particularly audits, is an essential component of management.

Auditing control is of great importance in the campaign against crimes in the sphere of the production, financial and economic activity of enterprises, institutions and organizations and especially against the embezzlement of socialist property. It is difficult and labor consuming to identify and prevent them. It is not by chance, therefore, that the discussion on the pages of the newspaper of the problems of the organization and the means of the improvement of control and auditing work has greatly interested us, the staff members of the service for combating the embezzlement of socialist property and speculation. I would like to state a few views.

The shortcomings in the organization of interdepartmental control were discussed in detail and thoroughly in the article of Belorussian SSR Minister of Finance B. I. Shatilo. The workers for combating the embezzlement of socialist property and speculation of the organs of internal affairs of the republic are also constantly confronted with them. The weakness of intradepartmental control and auditing work,

especially at the local level, consists, first of all, in the fact that it is not being carried out consistently and thoroughly enough. Due to the fact that the staffs of the auditing system are not completely manned, many enterprises, institutions and organizations have not been audited for a long time, haste and a superficial approach are observed in the performance of audits. In many instances the audits reduce only to a document check, which is not backed in essence by the study of the performance of operations. Inventories, measurements of the performed work and cross-checks are not always made, other methods of actual control are not being used in practice.

As a result of this many serious violations of financial discipline, deficits and misappropriations either are not discovered or are discovered late and not completely. Some materially liable people at the Zhlobin Factory of Artificial Fur of the Belorussian SSR Ministry of Light Industry worked in an atmosphere of the lack of control, for example, the confusion of the accounting of raw materials and finished products. A considerable shortage of products was established by the document check of the production, financial and economic activity of this enterprise for a not full 1.5 years, which was conducted on the initiative of the organs of internal affairs. The mismanagement, which had thrived here, enabled individual foremen and other workers of the factory to steal large amounts of artificial fur.

For a number of years the audits of the wholesale trade base of the Ivanovskiy Rayon Union of Consumer Societies remained ineffective. Meanwhile R. P. Kolpakova, its director, Senior Accountant M. P. Ignatchuk and a number of other workers systematically engaged in the embezzlement of the physical assets entrusted to them, by drawing up invoices for the release of goods to trade enterprises, which were for undelivered goods. All this escaped the auditors. As was determined during the investigation of the criminal case, the amount of embezzlement exceeded 40,000 rubles.

It is correctly noted in the article of B. I. Shatilo that the costs in the organization of control in many ways are connected with shortcomings in the selection of audit workers. In conjunction with the low level of training of the personnel this has the result that some of them are characterized by unstable moral qualities, the lack of principles, the tendency to conceal detected violations and personal unscrupulousness. Senior Auditor A. Mal'nev of the Administration of Workers' Supply of the Belorussian SSR Ministry of the Forestry Industry showed himself to be precisely of this kind. While checking one of the subordinate organizations, he concealed a large deficit of commodity stocks, for which he received a bribe from the concerned individuals. V. Baranovskiy, chief of the Control and Auditing Sector of the Grodnenskaya Oblast Health Department, was prosecuted under criminal law. When conducting audits of the oblast psychoneurological hospital he discovered cases of embezzlement, for which he received a "reward" from Chief Physician L. Russel', the organizer of the criminal group, and other individuals, and then participated himself in the embezzlement.

The increase of the responsibility of executives of enterprises, organizations and institutions for the state of the safekeeping of socialist property, including the selection of the personnel of the accounting and bookkeeping staff--that is the means which can and should lead to the improvement of the situation. Unfortunately, some individuals, who by the nature of their functional duties are called upon to ensure the safekeeping of socialist property, not only show tolerance toward,

but even protect the criminal elements. Thus, for example, criminal proceedings were instituted against A. B. Kul', the foreman of a construction group of the Minsk Trud Production Association, who embezzled 2,500 rubles. What stand did V. I. Sokolov, director of the association, take? He sent to the sitting of the People's Court of Frunzenskiy Rayon of Minsk, where the criminal case was being heard, a public defender and a petition for the release of A. B. Kul' on bail to the collective. After the People's Court denied the petition and sentenced A. B. Kul' to 2 years of imprisonment with the serving of the term at construction projects of the national economy, on the order of V. I. Sokolov they dismissed the thief from work at his own request.

Of course, someone's ill will lies without fail behind various negative phenomena. The low skill of workers and the lack at times of adherence to principles, perseverance, insight and so on also have an effect. If irresponsibility is also added to these qualities, the negative facts which were cited above are inevitable.

Is it possible to avoid them? Unquestionably. The main thing, as was correctly stated in the already published articles, is the improvement of the selection, training and education of the personnel. It seems, however, that a broader view of the problem as a whole is necessary.

It is necessary to improve the control system of primarily a preventive nature so that embezzlement and other abuses would inevitably be detected and would be prevented in good time. It seems to us that the very methodology of audits needs improvement and, perhaps, a different approach. Is, for example, the completeness of audits always necessary? Is not the set of tasks, which are set for auditors, too broad? Here there are the thorough checking of the state of the economy of enterprises, institutions and organizations, the analysis of their production activity, the fulfillment of the economic and financial plans, the observance of socialist legality and state discipline and so on.

In this extensive list at times the main goal: the combating of the embezzlement of socialist property, the detection of signs of embezzlement and the illegal use of assets and materials, somehow recedes into the background. Let us recall that V. I. Lenin repeatedly indicated the importance of this function of control and accounting. The founder of the Soviet state wrote: "The program of this accounting and control is simple, clear and understandable to everyone: ...so that not one crook (including a shirker of work) would not go free, but would sit in prison or would serve his sentence on forced jobs of the hardest type...."

Moreover, it should be noted that the complete audit of production and financial activity can be of value and effective only if the appropriate specialists take part in it. Alas, frequently they are not available, while an auditor cannot be competent in all spheres.

The established procedure, in case of which the annual audits are specified in the departments, requires improvement. This leads at times to formalism, and some people "contrive" until the deadline and try to see to it that none will be the wiser. But why not use surprise audits more often or as the need requires in practice?

It seems expedient to concentrate the efforts of auditors on the object-by-object study of the actual state of the safekeeping of socialist property and the achievement of a specific goal--to detect signs of abuses, to identify and eliminate the factors which promote them.

In our opinion, it is necessary to think out a more precise system of the material and moral stimulation of auditors, on the basis first of all of the specific results of the work done by them.

Finally, I would like to raise the following questions. The organs for combating the embezzlement of socialist property and speculation in instances dictated by the situation address to the executives of some ministries and departments or others a petition for the conducting of an audit and a check. Our requests at times are turned down. Why? They cite the lack of people, since the scale of planned audits is great. What is the solution? We see one of them in the creation of cost accounting bureaus and groups of auditor-accountants made up of retirees.

We fully support the opinions on the need for the quickest possible centralization of control and auditing staffs, the improvement of the instruction and further training of their personnel and the close coordination of the control activity of ministries and departments. This should lead to an increase of the quality of intradepartment control and, in the end, to the improvement of the state of the safekeeping of socialist property in the national economy.

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