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19 July 1982

USSR REPORT  
ECONOMIC AFFAIRS

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## ECONOMIC POLICY, ORGANIZATION AND MANAGEMENT

### GOSPLAN OFFICIAL DEPLORES WASTE, INEFFICIENCY

Moscow ZHURNALIST in Russian No 5, May 82 pp 12-14

[Article by Vadim Kirichenko, member of Gosplan USSR, director of Scientific-Research Economics Institute under Gosplan USSR: "A Million for an Error"]

[Text] The collective of a mine fulfilled the second annual plan; a plant began to put out a new production line; at a GES, tests of a new unit were completed. And at the same time, there are questions of concern to correspondents and readers: how are preparations for the 1982 sowing proceeding? Why does a ministry continue to plan production of old machine tools for a plant that has begun the manufacture of progressive equipment. How does one increase the responsibility of directors for fulfillment of production plans? And here is what appears to be a trifle, but one which also requires solution: why is it not possible to find a scythe made for a left-handed person?

A large number of facts, details and opinions encountered on a newspaper page or over the air are summarized, compiling a chronicle of the 11th Five-Year Plan. And I probably would not be in error if I assumed that editorial collectives are now engaged in work on the five-year plan. Journalists are reading over and over again the materials of the 26th CPSU Congress and the November Plenum of the CPSU Central Committee and are trying to coordinate the routes of their trips, the subject matter and range of problems of their articles and public appearances with the most urgent tasks of the country's economic development. What are these tasks like today and how will they seem as we move to 1985? What difficulties, what barriers will society as a whole and individual labor collectives have to overcome while working for the fulfillment of the plans outlined by the party and the people?

The most labor, mobilization and concentration of all forces will be required, one may now assume, in order to achieve the fulfillment of indicators of production efficiency designated in the plan and to achieve the requirement put forth by the 26th CPSU Congress--to complete in the '80s transfer of the economy to the rails of intensive development. First we shall try to analyze what will cause these difficulties.

Intensification of production constitutes a powerful means of solving the most important social-economic problems, the main way of building a material and technical base for communism. In terms of its historical significance and

consequences, the policy of intensification could be considered in the same row with such profound transformations as socialist industrialization, which radically changed the face of the country.

As concretely reflected in sections of the 11th Five-Year Plan, is not this a most important directive of the party?

On appearing at the November Plenum of the CPSU Central Committee, L.I. Brezhnev said:

"With an increase in the general volume of capital investment of 10 percent, the plan provides for an 18-percent growth of national income. Undoubtedly, it will not be easy to achieve this. But even an actual juxtaposition of the two figures shows that the plan has for its basis a policy of better utilization of all resources."

The achievement of a leading growth of the national income over the growth of capital investment, and with such a significant gap, is a task set for the first time by our society. Capital investment has increased more rapidly than the growth of national income not only in the early stages of development of the socialist economy when quantitative indicators assumed the forefront (new enterprises were constantly being built, sown areas were being expanded and more and more people were drawn into public production) but also in recent years, including during the 10th Five-Year Plan.

Never before have we faced with such acuteness the question of how to achieve the most rational and efficient use of each unit of our resources as we do now. As noted at the 26th CPSU Congress, we have developed a practice of management which is a great deal more wasteful than other countries permit themselves. We spend on a unit of national income more raw material and energy. We believe it would be useful to compare the following figures computed as of 1979: per unit of U.S. national income, it was able to spend almost 1.5-fold less of capital investment than we did, 1.7-fold less to cast steel and one-half as much to produce petroleum. We spend on the same volume of capital construction 1.58-fold more cement and severalfold more window glass. Compared to the United States, we put in more resources into a unit of agricultural production--1.3-fold more mineral fertilizer, almost 1.5-fold more equipment, estimating on the basis of tractor-engine capacity. Thus production output among us is significantly smaller than one might expect on the basis of expended costs. It would not be difficult to imagine how much the economy would gain if we taught ourselves to use economically all that we have at our disposal.

It would appear to me to be very important for each Soviet individual to penetrate deeply into the meaning of such figures and indicators, correlating them with our own labor. The press must help us in such sharpening of vision.

It is written in the plan, for example, that in 1985 economy of rolled ferrous metals in machine building and in construction must amount to 8.6 million tons. Is this much or little? This figure should be compared with others. Let us remember, for example, that growth of rolled metal in the five-year plan is set at 15 million tons. Consequently more than 40 percent of the growth of requirements for rolled metal should come from the planned savings.

Another example: in 1985 compared 1980, an economy in energy resources will have to be provided in the amount of 200 million tons of conventional fuel. And these figures will also stay "mum" until we find a way of illustrating the economic significance of this amount. It turns out that personnel of the fuel industry worked the last two years of the 10th Five-Year Plan in order to increase total production of fuel by 150 million tons!

For specialists all this means the necessity of a significant rise in the technical level of production, a profound change of its structure and a cardinal reorganization of the investment process. But for newspapermen, something else is much more important: to feel out the acuteness and scale of the psychological reorientation of the consciousness of those people on whom the solution of qualitatively new tasks depends. Only then will we be able to avoid the expensive errors costing millions in planning and production. The timely detection and rectification of a mistake is also estimated in millions of rubles, but this is not lost but acquired money.

I would like now for us to consider how most people will have to abandon habitual stereotypes of thinking and overcome in themselves--first in themselves--difficult-to-overcome psychological barriers in the name of ensuring what is planned. The fact is that those indicators which we must decisively give up are connected with a certain type of management which we have become accustomed to and to which executives of all possible ranks and rank-and-file performers have adapted all their work aspirations.

I shall again make use of an example from the sphere of energy. Of the 1.6 billion tons of conventional fuel which we spent in 1980 for production operational needs, hundreds of millions of tons were expended, it may be said, uselessly. In the opinion of specialists, with proper organization of work these outlays could be reduced by more than one-third. A cartoon in KROKODIL shows a person who deliberately burns up fuel idly; as they say, he is "heating up the street!" As a rule, people are sure that they are doing everything possible, and if it is in principle possible to achieve better results, they are unable to do so because of certain objective conditions....

Such a psychological threshold really does exist, and I see in this one of the chief difficulties of the forthcoming period. To induce people to critically rethink all the details of their production work, I believe, would be difficult without the active assistance of journalists.

The economy must be economical. Yes, with the development of the national economy, economy of material resources is becoming an increasingly decisive source of providing for social needs. One more parallel, which obliges us to seriously ponder: in 1965 each percentage point of reduction of material expenditures per production unit increased national income by about 2 billion rubles, while at the beginning of the 11th Five-Year Plan, this indicator began to amount roughly to 6 billion rubles. Such funds are sufficient to build 660,000 new well-appointed apartments with a total floorspace of 35 million square meters. Under present conditions, the possibilities of economy are becoming comparable to possible volumes of additional production resources and measures for their economy--economically more advantageous than growth of

production. Technical-economic calculations proved, for example, that outlays of capital investment for the saving of 1 ton of conventional fuel are three-sixfold lower than its production, transportation and refining.

Yes, now, as never before, we must fight wastefulness, inaccuracy, carelessness. But in dealing with economy on printed pages, it would not be right to limit the meaning of the term solely to this.

Economy means first of all, perhaps, profound changes in the structure of production, the introduction of new technologies, machines and mechanisms and acceleration of technical progress.

Since we have already spoken of ferrous rolled metal, let us go a little further with this example in connection with improvement of the technology of its production and utilization.

The coefficient of use of rolled metal in our country is intolerably low. In 1979, of each ton of metal, 266 kilograms went into waste, half of which was composed of shavings; in 1977, the weight of shavings amounted to 6.8 million tons.

The 11th Five-Year Plan solves the problem of metal economy comprehensively. On the one hand, metallurgists must reorganize rolled-metal structure and increase the relative share of its progressive forms. With an about 1.1-fold increase of the total output of rolled metal, the production of cold-rolled sheets, rolled metal with hardening thermal treatment and from low-alloy steel, sheets and tin plate (including the thinnest) with protective coatings as well as of cold-rolled strip metal and dynamic steel, shaped and high-precision shapes of rolled metal will grow 1.5-2.5-fold over the five-year period. On the other hand, in machine building, it is planned to modernize the machine-tool park, to modernize the technology of manufacture of products, achieving in this way a reduction of metal waste. There have been created, for example, small part rolling mills capable of making billets with minimal allowances for mechanical working, providing thereby a 15-20-percent saving of metal. According to the calculations of the All-Union Scientific-Research and Planning-Design Institute of Metallurgical Machine Building, in order to completely satisfy the requirements of machine-building enterprises, 424 part rolling mills would be needed. They would make it possible to produce each year more than 1.5 million tons of precise billets and parts and to save thereby 350,000 tons of metal and free 20,000 metal-cutting lathes and 27,000 workers.

Still another progressive way exists of saving metal--introduction of substitutes for it. During the 11th Five-Year Plan, it is contemplated to increase the output of synthetic resins and plastics, chemical fibers and threads, pipes and parts of pipelines from thermoplasts. The absolute production growth of synthetic resins and plastics amounts to 2.4-2.6 million tons. This is 4.2-2.4-fold higher than the growth of finished ferrous-metal rolled products. The strenuousness of this target may be judged by the fact that in the preceding 10 years the absolute growth of output of synthetic resins and plastics was roughly equal to 2 million tons. The projected production volume of pipe from thermoplasts will make it possible to save about 1.5 million tons of steel pipe.

Why do I speak to journalists of this in such detail? Because the realization of this program would be impossible without decisive overcoming of inertia in the consciousness of those people on whom there depend the adoption of this or that important decision, designation of time periods, release of allocations, rewarding the actions of some and punishing those of others....

One does not have to be a prophet to predict the fact that overcoming inertia in thinking will not take place without conflicts. I believe that such clashes will require the utmost of attention on the part of publicists. The old as the world opposition of "innovator--conservative," which in the past used to set one's teeth on edge, is undoubtedly acquiring many new traits and special features. While the psychology of a person conventionally called an innovator is quite clear to us and if journalists tirelessly work with combined efforts on its collective portrait, the figure of his antagonist--the conservative--frequently remains in the shade. But he for sure, like the bureaucrat and like the person who plays it safe, is now dressed in a new armor, has changed his colors and now little resembles his confreres of the '40s and '50s, even of the '60s. He for sure is better educated, he has a broader professional outlook, his work desk has on it souvenirs brought from trips overseas--it can be immediately seen that he has been around, that he has seen the world and that he does not judge "world models" by hearsay. How is the logic of his behavior to be explained? And what is the secret of his durability--the fact is that such people frequently hold on for a long time to their managerial positions, which alas can hardly be said of all innovators?...

Up to now we have been dealing with the need of overcoming stereotypes in thinking, which could be conventionally called vestiges: awareness fails to keep up with rapidly changing conditions and requirements of production. But errors occur because of going too far ahead too soon.

Frequently in speaking with planners, a journalist may hear complaints about scientists, engineers and inventors: they lag behind, they say, the needs of production! They fail to provide solutions to technical problems, and so it is impossible to achieve planned indicators of efficiency! And as soon as a fitting machine is built or a technical device designed, everything will take care of itself.

According to my observations, a certain professional cunning and the desire to pass on responsibility to another are displayed in such discussions. Of course, technology in time will sunder the Gordian knots of production that are untieable according to our present understanding. But this will not be today. And it is no calamity that it will not be today! If the present economic situation were to be analyzed we would see that we have entered a very unique period; the efficiency of public production depends to an incomparably great degree on the ability to load existing equipment than on the progress of technology. And this is the concern not of the designer, nor the inventor, but of the economist and the planner! We build new capacities, but they work one shift: there is a shortage of workhands. In 1960, the number of metal-cutting lathes exceeded the number of lathe workers 1.2-1.3-fold, in 1970, 1.6-1.7-fold and at the present time according to estimates of certain specialists--almost twofold. We sometimes blame operational managers for this: they are too absorbed in new

construction, they do not pay enough attention to the real renewal of the moving production apparatus, modernization and reconstruction or mechanization of manual labor. But in a socialist economy, not a single such action can be carried out unless it is indicated in the plan.

During the 10th Five-Year Plan there were instances where created capacities for the production of mineral fertilizers were not provided with raw materials. In the first four years of the past five-year plan, machine building failed to receive about 4 million tons of rolled metal relative to its annual plans and resources of technical equipment. And was it not violation of proportion in many parts of the national economy resulting in indebtedness in construction and provoking discussion at the 26th congress and at the November Plenum of the CPSU Central Committee? If we introduce order in planning and achieve proportionality, then even with the present level of technical equipment, the five-year plan's targets for efficiency of production will be fulfilled.

I think that newspapermen should be ready for the fact that changes in technical policy will take place, and at quite a fast rate.

For many decades we took the route of raising the unit capacity of machines, mechanisms and units. The economic results were evident: the most elementary calculations showed reduction of metal intensiveness and labor outlays. But now the time is approaching for a critical review of these positions. Further growth of capacities will run into certain natural limits. At the same time, it is becoming increasingly clear that our technical "record holders" are not providing fully adequate yields. A turbine with a capacity of 800,000 kilowatts, it turns out, is not too reliable. The real productivity of a superpowerful tractor turns out to be below expectations and calculations--it requires in addition an entire train in the form of accompanying machines and technical maintenance resources. The technical super-giant is weak and helpless as Gulliver was as a prisoner of the Lilliputians in pertinent conditions of operation....

The national economy will gain if we would temporarily stop at today's capacity level of many machines and units and solve the problems of their durability, reliability and uninterrupted operation. And here also work must be done not only in the field of technology but also in the area of psychology. What we need is another, extraordinary and new-to-us principle of economic accounting, another understanding of what is profitable and unprofitable. A new system of priorities is being created: to allocate funds for what for us has been neglected for decades--for increase of reliability, provision of a repair base and a maintenance system.

We do not always see clearly the complex dialectics of technical progress; occasionally we are surprised and even dumfounded by its unexpected ability to make circles, to return to what it seemingly revoked and abolished. How conqueringly the monopoly of precast concrete was established in construction, how reverently we believed that the future lay in industrial, ever more industrial, methods! How many scientific works have been devoted to enumerating the economic benefits! Reduction of time, lower costs, manpower, economy.... The building made of glass and concrete became the image of the contemporary city, the symbol of its dynamic, fast-moving life.

But time passed, and serious defects in this construction method came to the fore. Outlays of materials--cement, metal--in their use turned out to be

unjustifiably large. Powerful house construction combines--beloved offspring of progress--reduce mobility of construction. The actual location of the production base begins to dictate where to build and how much to build and determines the advantages of one territory over another--despite and even to the detriment of the logic of location of productive forces.

At the same time, other progressive directions were to be noted in construction methods, and even in the out-of-date and cast-off brick production, specialists are observing many hopeful changes. High economic-technical possibilities have been shown for cast concrete.

Of course, this does not mean that we should reject what has been gained or to sharply change course. The idea is to be found in something else: technical policy should provide sufficiently diversified solutions. This in turn will require flexibility and mobility of psychological mind sets.

I have deliberately bypassed a large group of problems connected with the fulfillment of the decree of the CPSU Central Committee and the USSR Council of Ministers on improvement of the economic mechanism: this is a separate and very important social-economic problem. It is to be solved not only in the production sphere but also in the sphere of party and propaganda work; as was pointed out at the November Plenum, one of the next plenums of the Central Committee should be devoted to this problem. But it is necessary to say a few words on the operation of the national economy in connection with the theme of our talk on the psychological prerequisites of intensification of the economy.

Sometimes in pondering on this or that newspaper material "aiming" at Gosplan, ministries or other high echelons, I involuntarily think: does a journalist always see who and at what level should solve the problem raised by him? And is not this shooting at large targets dictated at times by the author's desire to boost his material, to make it more important, to lend it a state character?

In one of his appearances on television, Yuriy Letunov formulated the question thusly: here you are, comrades, in the presence of some shortage or lack of coordination criticizing Gosplan. But let us think, is this always fair? The fact is that sectorial and local organs of administration and production associations possess considerable authority and they are given a large share of responsibility. Thus many questions of organization of production and provision to the population of consumer goods have to be solved locally.

Is it Gosplan's job to determine the number of toothbrushes needed by the population of the Soviet Union? Could it be that locally no one is going to concern himself with this in a timely way?

The fact is not, of course, that the name of one or another administrative agency is mentioned in vain one more time. But such "overshots" leave in the shadow the true culprits of various lughable and sad distortions and interruptions in supply!

The party's economic strategy demands an increase in the accountability of local personnel of all ranks and that they achieve greater independence and operational activity on their own initiative. Organs of the press should give

special protection to those who show daring and initiative. And this requires not just knowing well the specifics of production and the ability of distinguishing healthy enterprise from a narrow utilitarian approach: it demands, as life shows, the protection of one's hero. It is not just the breeze that blew in the ironic saying now enjoying wide prevalence: "Every initiative is punishable"....

As the reader can see, the discussion on pressing economic problems of the 11th Five-Year Plan was intertwined with the thought of the need for a significant revision of the mind set of those on whom the solution of these problems depends. The development of a contemporary view that takes into consideration all the factors influencing the economy and the renouncing of many customary ideas on the means and methods of managing the economy constitute today a task that is not less important than the introduction of new technologies and operational systems. More precisely it can be said that the first is impossible without the second. And the most impressive proof of this is the fact that it is not psychologists but economists that are speaking today of changing states of mind.

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## INVESTMENT, PRICES, BUDGET AND FINANCE

### PHYSICAL, MONEY FORMS OF DEPRECIATION FUND DISTINGUISHED

Moscow IZVESTIYA AKADEMII NAUK SSSR: SERIYA EKONOMICHESKAYA in Russian No 3,  
May-Jun 82 pp 5-12

[Article by A. V. Vikhlyayev: "The Role of the Depreciation Fund in Reproduction"]

[Text] The article elucidates the methodological principles of studying the socialist depreciation fund, which are governed by the specific nature of the communist (socialist) mode of production. The economic nature of the socialist depreciation fund, which is represented above all by its physical resources, is described in a new way. The article discusses the peculiarities of the money and physical forms of the depreciation fund. It is also quite relevant to study the functions of the depreciation fund in the reproduction of advanced socialism, which underwent substantial development in the sixties and seventies.

The process whereby socialist production relations grow to become communist production relations, a process which is based on a mighty productive and technical potential, specifically requires revision of the patterns of formation and use of the depreciation fund, which in the context of comprehensive intensification of production is becoming an ever more significant factor in the reproduction of the means of labor.

On the Specific Nature of Studying the Socialist Depreciation Fund. The methodological and theoretical principles of studying the problem of depreciating fixed capital are an integral part of the economic relations of socialism; that is Marxist-Leninist political economy's method of dialectical materialism must be applied here. K. Marx' research on the theory of depreciation of fixed capital reveals from the methodological standpoint two basic properties of this process: that depreciation is governed by capitalist production relations, by the law of surplus value above all; and that it is relatively detached from other forms of economic relations.

From the socioeconomic standpoint the depreciation of fixed capital is in both theoretical and practical terms predominantly a value category governed by the basic economic law of capitalism. Movement of the value of fixed capital

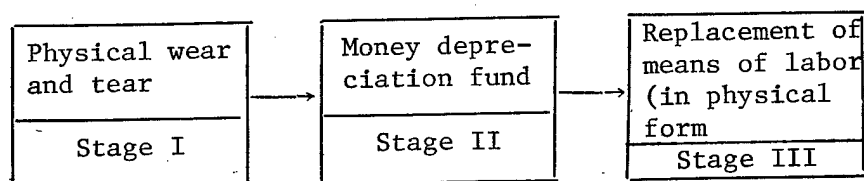
determines the content and the basic functions of the capitalist depreciation fund.

Socialism also has its inherent socioeconomic essence of the movement of the means of labor and the depreciation fund. The planned process of the functioning of socialist production greatly intensifies the role of the social factors in its development. In this connection depreciation of fixed capital, governed by socialist production relations, though it does have certain common patterns of movement in the different modes of production, differs fundamentally from the system of depreciation of fixed capital from the socioeconomic standpoint. It follows therefrom that in studying the socialist depreciation fund it is of decisive importance to apply creatively Marx' methodology of studying this process instead of mechanically transferring the patterns of amortization of fixed capital to a socialist economy.

In our view the system of depreciation that has taken shape in theoretical terms in the socialist context has a number of essential shortcomings. It first of all exaggerates the importance of commodity-money relations, at the same time underplaying the importance of use value in development of socialist production as a whole and use value of the means of labor in particular.

The premise of the established system of depreciating fixed capital is that the money depreciation fund, which represents the value of the means of labor passed on to the product created with them, is characterized by a unity of form and content, while the real pieces of equipment which correspond in value to the sum total of money depreciation deductions, are regarded by advocates of this system either as the result of expenditures of the money depreciation fund or as having been created at the expense of other sources, but realized at the expense of the resources of the money depreciation fund.<sup>1</sup>

An essential shortcoming of this theory of depreciation is that it does not furnish any overall description of the movement of the use value of the means of labor. The theoretical conception that has taken shape of the circulation of fixed capital is represented by its adherents in the following diagrammatic form [5, p 8].



According to this diagram (and the theoretical views of its adherents), the means of labor used and consumed as a factor of production do not in and of themselves take on any sort of physical embodiment in the product created with them, i.e., they disappear without a trace from the circulation of physical resources. That means that the use value of the means of labor, according to the conception being described, need not accomplish any sort of circulation whatsoever. It follows that their value, which is expended in proportion to consumption of the functioning means of labor, cannot by definition become an integral part of the value of the product reproduced with them.

It is altogether logical to suppose in accordance with the conception under consideration that the value of the means of labor as described must either vanish without a trace or be included in some form in the value of physical goods created, according to the conception mentioned, entirely by live labor. In our opinion it is impossible to explain the circulation and turnover of the value of the means of labor without acknowledging not only the circulation, but also the turnover of their use value. After all, the value of the means of labor cannot be preserved (or exist) without use value, detached from it, and it does only exist thanks to its embodiment in a particular form of use value.<sup>2</sup>

In analyzing the present theoretical system for depreciating fixed capital, we should also take into account that in essence it is based on the existing method of forming and using the depreciation fund, which is oriented toward the level of the primary cost-accounting (khozraschet) units. At that level the depreciation fund functions mainly in the form of the movement of its money resources, since the real pieces of equipment that correspond to the money depreciation fund exist for every enterprise (production association and even for a number of sectors of the economy) as an external prerequisite.

Insofar as the money depreciation fund is the decisive form of movement of fixed productive capital at the level of cost-accounting production units, while the real pieces of equipment exist for each of them as an external prerequisite of the circulation of the means of labor, it is a mistake to deal with the issues of the theory of depreciation of social production as a whole, functioning in conformity to plan, exclusively on the basis of the facts of the movement of the means of labor of primary production units. In our opinion it is the movement of the means of labor on the scale of society, a movement regulated by plan, that should become the primary focus in studying and revealing the patterns of formation and use of the depreciation fund under the conditions of socialism.

The methodology and theory of studying the socialist depreciation fund should be based on the patterns of development of socialist production, which are based on ownership of the means of production. The system of specific laws and production relations of socialism predetermines the priority of the functioning and development of use value relative to the value of the social product, and that means that the planned formation of the physical depreciation fund has priority over its money form. Consequently, the patterns of formation and use of the socialist depreciation fund should be derived first of all from social ownership of the means of production, from the prevailing system of the relations of social production as a whole, a system which is regulated by plan, and not from commodity-money relations which have a subordinate socioeconomic importance.

The importance of the means of labor in the movement of social production, which increases greatly under the conditions of advanced socialism, and using the resources of the depreciation fund to preserve the capability, maintain at a high technical level, the functioning means of labor, which in large part determine the development of contemporary production, impose new requirements on the study of the resources for their replacement and expanded reproduction

at the expense of the depreciation fund. The technical level and degree of improvement of production depend to an ever greater degree on the present system of reproduction of fixed capital. In addition, the system of relations in the formation and use of the socialist depreciation fund, which reflects the movement of the means of labor in the form of the dynamic behavior of depreciation- and capital-intensiveness and the relative share of the depreciation fund in the structure of the funds for socialist reproduction, makes it possible to clarify the conceptions that exist of accelerated depreciation of fixed capital and to understand the new conditions of use of the means of labor as one of the important factors in regulating proportions in reproduction.

The Economic Nature of the Socialist Depreciation Fund. Factor analysis of the distribution of the social product, which provides evidence of the existence and use of the physical (real) depreciation fund, is taking on a qualitatively new importance in clarifying the nature of the depreciation of fixed capital under the conditions of socialism.

If the structure and quality of the product created and the efficiency of the factors of production employed remain unchanged, equality is ensured between the aggregate volume of factors of production consumed and the economic benefit (product) generated in the process of that consumption, and here each of the factors described figures as a "coparticipant" in the product created in proportion to its consumption. The use value of each of them is embodied in the use value of the product created with them. As for the value of the means of labor, it is passed on to the product created with them, since "though that use value in which it originally existed does indeed vanish, it is only in another use value that it vanishes. The value of the means of production, then, is manifested in turn in the value of the product, but, strictly speaking, it is not reproduced. A new use value is produced in which the old exchange value is manifested anew [1, Vol 23, pp 218-219; also see 1, Vol 23, pp 210-214; 1, Vol 24, pp 176-177, 184; 1, Vol 46, Part I, pp 230-232].

The preservation of commodity-money relations along with the dominance of the planned organization of production presupposes movement of the means of labor as two processes in one: productive consumption of the means of labor guarantees the transformation of their use characteristics into the use characteristics of the new product created with those particular means of labor; it also brings about the transfer of the respective share of their value to that product. It is in this process on the scale of the entire society that the physical and money funds are formed for depreciation of the means of labor.

At the same time there are fundamental differences between the formative processes of the physical and money depreciation funds. The money depreciation fund is created right at every enterprise which has means of labor. This fund vividly and tangibly reflects the value of the means of labor, the transfer of a portion of it to the product created with them. At every enterprise the value of wear is periodically included in production cost, reimbursed in money form, and built up in the depreciation fund as goods are sold. The process of the formation of the physical depreciation fund at the level of the primary production units has hardly been traced at all.

Formation of the physical depreciation fund is not directly related to the consumption of each piece of equipment. In essence, for every set of the means of labor used in production the physical depreciation fund is represented by a certain share of the products created in a given year. But the connection between the volume of consumption of each means of labor and the physical depreciation fund turns out to be mediated through the distribution of the global product. But a rise in the efficiency of the means of labor in the context of scientific-technical progress makes the relationship under analysis still less tangible, leaving room for some economists on the one hand to ascribe the total benefit of production exclusively to live labor and on the other to deny not only the existence of the physical depreciation fund, but also the additional benefit that is obtained by improving utilization of fixed capital.<sup>3</sup>

In production that is regulated according to plan it is not possible to ignore this relationship among the factors of production, their consumption and their replacement from the product reproduced. Socialist society plans the growth of the volume of capacities necessary for production of output in a multianual period on the direct and full capital intensiveness of production, generating the need for the means of labor. Consumption of the means of labor is taken into account by planning depreciation deductions and current outlays for repair and servicing of equipment, by calculating the number of pieces of the means of labor which have been retired, and so on. On the scale of the entire society the necessary correspondence must be maintained between the means of labor expended in production and the formation of the resources of the depreciation fund.<sup>4</sup> Viewed in the aggregate, then, the depreciation fund built up according to plan and used on the scale of society represents first of all the sum total of various kinds of physical objects in the form of machines and equipment, production buildings and installations and other means of labor reproduced in accordance with the outlays (consumption) of fixed productive capital, and also the equivalent of the technology created and physical resources for carrying out repairs and current servicing of the means of labor. The socialist depreciation fund, which on the whole figures as a fund for replacement (equivalent, benefit) of the means of labor consumed, is at the same time a function of the pieces of equipment employed in a given period. It reflects the reason for its existence, figuring on the scale of the entire society as the result of consumption of the means of labor, and its designated purpose, which results directly from their consumption.

The money depreciation fund, which is the form of movement of the value of the means of labor and of the real depreciation fund, exerts a vigorous feedback effect on the formation and use of the real depreciation fund.

In production which is regulated according to plan the economic nature and overall functional role of the depreciation fund are traced along three main lines: in the process of compilation of plans for development of the country's economy; in the period of its actual formation in the production process; and in the stage of utilization of the physical and money depreciation funds.

Functions of the Depreciation Fund in Reproduction. Under present-day conditions the role of the depreciation fund in reproduction is growing steadily. It mainly takes the form of an inevitable increase in its share in the aggregate of factors in reproduction of the means of labor. This inevitability results from a number of causes: the ever larger saturation of the country's economy with fixed capital; the fact that fixed productive capital is growing faster than the national income thereby diminishing, other conditions being equal, the latter's share in reproduction of the means of labor; the substantial increase in the average (group) rates of depreciation of fixed capital; and the rise in the efficiency of reproduction and utilization of the means of labor, furnishing the possibility of reducing the share of accumulation accomplished at the expense of the national income.

Over the period from 1960 to 1980 the volume of the national income created in our country grew 3.2-fold, fixed productive capital 5.0-fold, the aggregate money depreciation fund 7.9-fold, and the replacement fund 11.9-fold. The coefficient describing the ratio of fixed productive capital to the national income increased from 1.3 in 1960 to 2.5 in 1980. But even though the share of the national income spent for each percentage point of growth of fixed productive capital grew 1.9-fold over that period, the overall rate of accumulation of the national income used for reproduction of the means of labor remained practically unchanged (at the level of 10-12 percent), while over the last two 5-year periods it even dropped and dropped to a considerably greater extent (approximately twice as much) in the period of the 11th Five-Year Plan. This fact is above all the result of the effect of the causes we have mentioned, which are tending to augment the role of the depreciation fund in reproduction.

In 1980 the replacement fund in the USSR represented about 80 percent of the outlays of the national income for reproduction of the means of labor, while the total fund of amounts of depreciation charged amounted to about 140 percent. If we take into account the volume of outlays for current repairs, this ratio would exceed by approximately twofold the outlays of national income mentioned. In the context of high technical supply to production and the present-day scientific-technical revolution, then, the depreciation fund is becoming more and more a major factor in reproduction of the means of labor.

The physical depreciation fund assumes dominant importance relative to the money depreciation fund from the very outset of its movement, in the very process of planning capital construction and PPR [scheduled preventive maintenance and repair] of fixed capital. For instance, when state 5-year plans for capital construction are being drafted, first attention is paid to determining the volume and structure of capital investments for the retooling and reconstruction of existing enterprises, to achievement of a growth of their capacity without expanding the production areas of the principal shops. The decisive portion of those investments is assigned to replacing physically worn-out and obsolete equipment, i.e., it represents the physical depreciation fund, technically more refined means of labor. It is accordingly recommended that "capital investments for replacement of the current retirement of fixed capital ... be taken into account in the plans for retooling existing enterprises" [2, p 424].

The aggregate volume of the means of labor to maintain capacities of functioning enterprises is determined in accordance with their plans for current replacement and for renewal of the means of labor. The plan also includes those facilities which are to go into service to replace outdated ones scheduled for major repairs when performing them is deemed to be economically inadvisable. This means that not only the replacement fund, but to some extent even the fund for major repairs of fixed capital are used under the heading of capital investments assigned for replacement, retooling and reconstruction of existing enterprises.

The system which is operative in our country for PPR of equipment is based on technical-and-economic standard allowances governing expenditures of materials, replacement parts and live labor. The importance of the value form of outlays (the money depreciation fund) is as a rule underestimated here, and this is not conducive to improving the efficiency of repair work. At the same time even in the future the need for major and current repairs and capital investments "must be met on the basis of the planned balance of production capacities and fixed capital in the planning period, which is compiled with a view to maximum utilization of the reserve for increasing production capacities at existing enterprises by retooling them and thoroughly substantiated proportions of the retirement of capacities and fixed capital because of dilapidation and wear" [3, p 257].

The money form of the depreciation fund is used in the planning stage mainly as a source of financial resources necessary for reproduction of the means of labor. A sizable portion of the resources of the money depreciation fund is envisaged for expenditure to finance general overhaul and modernization of equipment conducted simultaneously with the general overhaul. A certain portion of deductions for general overhaul is redistributed according to plan from one enterprise to another and spent to finance the major overhaul of the means of labor. About half of the resources of the fund intended for replacement are spent to obtain equipment to replace equipment retired because of wear. Finally, a substantial and ever growing amount of the replacement fund is intended to be spent for expanded reproduction of the means of labor.

Computations of the economic efficiency of full and partial replacement of the means of labor, of proportions in distribution of the resources of the depreciation fund for simple and expanded reproduction, and so on, are made by means of the money depreciation fund even in the planning stage.

Use of the depreciation fund for accumulation, which makes it possible to increase the efficiency of reproduction of the means of labor, to accomplish a relative reduction of expenditure of the national income for accumulation, and thereby to increase the share of the consumption fund in it, is becoming increasingly urgent in the stage of advanced socialism (Table 1).

As we see, the replacement fund of the industrial sector as a whole and of its branches is becoming an ever larger source for accumulation of the means of labor. Whereas in 1965 the share of accumulation in the replacement fund amounted to less than half, at the present time it exceeds two-thirds of its total amount. In 1980 the share of the accumulated portion of the replacement

fund was 66.7 percent, i.e., it was essentially equal to the level of that figure in 1977 [4, 1980, pp 49, 147, 521]. Three important factors have promoted this growth: first, the rise of depreciation rates because of revaluation of fixed capital and revision of depreciation rates at the end of the sixties and beginning of the seventies; second, the increase in the share of equipment in the composition of fixed capital as a result of accelerated mechanization and automation of industrial production; third, the rise in the efficiency of reproduction and increased utilization of equipment. For instance, the average rate of deductions for replacement in the industrial sector increased from 4.0 percent in 1965 to 4.7 percent in 1977; the share of passive means of labor (the value of buildings and installations) dropped from 53.0 percent in 1965 to 48.5 percent in 1977 (see [4, 1977, pp 152, 154; 4, 1980, pp 134, 138]). Structural shifts in the intrabranched composition of the means of labor have also been constructive.

Table 1. Use of the Replacement Fund for Accumulation in USSR Industry\*

| <u>Branch</u>                                     | <u>1965</u> | <u>1970</u> | <u>1975</u> | <u>1977</u> |
|---------------------------------------------------|-------------|-------------|-------------|-------------|
| Industry                                          | 47.5        | 55.0        | 66.0        | 68.1        |
| Breakdown:                                        |             |             |             |             |
| Electric power                                    | 84.0        | 82.8        | 83.3        | 83.9        |
| Fuel                                              | 46.4        | 43.6        | 53.2        | 62.9        |
| Ferrous metallurgy                                | 66.7        | 70.0        | 77.3        | 79.5        |
| Machinebuilding and metal manufacturing           | 63.2        | 63.2        | 74.5        | 75.0        |
| Timber and lumber, woodworking and pulp and paper | 3.3         | 26.9        | 43.5        | 51.6        |
| Building materials                                | 17.7        | 17.1        | 48.1        | 51.0        |
| Glass, earthenware and porcelain                  | 35.1        | 31.6        | 59.2        | 64.6        |
| Light                                             | 38.9        | 46.0        | 72.1        | 52.3        |
| Food                                              | 40.5        | 36.1        | 58.1        | 58.1        |

\* The author has presented the computational procedure elsewhere [7, Chap 3; 8, Chap 3].

Table 2. Replacement Fund as a Factor in Reproduction of the Fixed Capital of Industry, in percentage

| <u>Branch</u>                                     | <u>1965</u> | <u>1970</u> | <u>1975</u> | <u>1977</u> |
|---------------------------------------------------|-------------|-------------|-------------|-------------|
| Industry                                          | 37.0        | 33.6        | 53.4        | 62.7        |
| Breakdown:                                        |             |             |             |             |
| Electric power                                    | 24.8        | 30.5        | 50.0        | 60.8        |
| Fuel                                              | 68.6        | 50.5        | 60.8        | 73.8        |
| Ferrous metallurgy                                | 37.9        | 32.3        | 50.1        | 63.2        |
| Machinebuilding and metal manufacturing           | 34.9        | 27.3        | 46.1        | 49.0        |
| Timber and lumber, woodworking and pulp and paper | 50.0        | 40.0        | 66.7        | 80.5        |
| Building materials                                | 47.0        | 37.0        | 73.2        | 83.6        |
| Glass, earthenware and porcelain                  | 33.3        | 22.4        | 49.0        | 54.5        |
| Light                                             | 34.9        | 36.4        | 53.8        | 52.4        |
| Food                                              | 34.3        | 40.0        | 64.2        | 70.5        |

The growth of the accumulated portion of depreciation resources has also been having a beneficial effect on the growth of the share of the replacement fund in the sum total of industrial fixed productive capital being reproduced (Table 2).

Here again, just as in the previous table, the pattern of increase of the share of the replacement fund as a factor in reproduction of fixed capital is clearly traced.

Use of the depreciation fund to finance expanded reproduction is "erasing" the boundary between it and the national income. Another factor acting in that direction is the assignment of a certain portion of the resources of the depreciation fund for modernization of equipment. An important role is also played by the depreciation fund in compensating for the partial wear of the means of labor through performance of current and major repairs. Together with performance of its functions as a source of simple reproduction and accumulation, the depreciation fund guarantees the reproduction and operability of more than 92 percent of the volume of the means of labor.

These functions of the socialist depreciation fund are related to one another and also to the overall system of the planning, the formation and the use of the depreciation fund. Even in the planning stage there is mutual linkage of the movement of flows of the physical and money depreciation fund, the leading role of the former being preserved; in the phase of distribution the priority of the physical depreciation fund results from the fact that the sphere of production in which it is formed is the leading sphere as compared to the distribution sphere in which the money depreciation fund is formed; finally, in the stage of use the physical support of social production which is regulated according to plan and financed from the depreciation fund is dominant over the financial support which is furnished at the expense of the money depreciation fund.

But the money depreciation fund also performs functions which are by no means exclusively accounting functions, but are meaningful economic functions that take on primary importance at the level of the primary production units and even, sometimes, at the branch level. Every one of these units has equipment put at its disposition to replace equipment retired because of wear and carries out general overhaul and modernization of worn-out and outdated equipment with the depreciation funds earmarked for financing those operations. In this case the resources of the money depreciation fund anticipate the turnover of the physical resources which are part of the physical depreciation fund (in the framework of centrally distributed amounts of the means of labor). The phase of acquiring means of labor necessary for the technological adequacy of existing production precedes their inclusion in the production process and is a financial and economic impetus for the commencement of production. The role of the money depreciation fund also increases in this case because of the specific function of money in the commensuration of the use characteristics of the diverse means of labor.

Improvement of the theory and practice of planned regulation of the processes of the formation, distribution and use of the socialist depreciation fund,

then, is an urgent task in the context of advanced socialism and should be oriented above all toward strengthening attention to the problems of the economic nature of the physical depreciation fund and its role in reproduction.

#### FOOTNOTES

1. "Depreciation of fixed capital," says Yu. I. Lyubimtsev, "signifies above all a fund of money for replacement, a source of replacement" [5, p 130]. In the opinion of O. Ozherel'yev, "the depreciation fund is the money equivalent of the value of fixed capital carried over to the product sold" [6, p 110]. "The depreciation fund," it is emphasized in "Ekonomicheskaya entsiklopediya," "represents money resources earmarked for replacement of the value of the wear of the means of labor" [9, p 52].
2. "Value," K. Marx writes, "... exists only in a particular use value, in a particular thing" [1, Vol 23, p 213].
3. For example, O. Ozherel'yev essentially denies the additional benefit obtained as a result of improving reproduction and the utilization of equipment. He supposes that for every "increase in the operability of new equipment there have previously been corresponding expenditures of labor either in scientific institutions and those branches in which the advances of science have been introduced or in the training of manpower, or in the supplier sectors, and so on." As a consequence, in his opinion, "the total growth of the use benefit (capacity, productivity, quality, and so on) of the entire aggregate as a means of labor produced in the course of a year by comparison with analogous characteristics of those consumed represents the growth of the capability (useful benefit) of the net product, but not of the replacement fund. For that reason a portion of the gross product equivalent to the growth of the use value of the means of labor cannot be applied to the latter" [6, pp 109, 111]. As we see, the author is here denying not only the increase of the efficiency of the means of labor achieved by improving their technical-and-economic characteristics, by improvement of the organization of production and the like, but even the very possibility of intensification of production, since any growth of the social product he attributes to equally large expenditures of labor power.
4. Noting this relationship, K. Marx writes as follows: "A machine experiences wear in sphere A. At the same time it is produced in sphere B. The constant capital consumed during the year in those spheres of production which are producing the means of subsistence is simultaneously produced in other spheres of production, since in the course of the year or at the end of the year it is replaced once again in kind" [1, Vol 26, Part II, p 525].

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## REGIONAL DEVELOPMENT

### WAYS TO INCREASE EFFICIENCY, INTENSIFICATION IN ECONOMY VIEWED

Kiev EKONOMIKA SOVETSKOY UKRAINY in Russian No 2, Feb 82 pp 51-56

[Article by Candidate of Economic Sciences B. Kvasnyuk: "The Policy of the CPSU of Increasing Production Efficiency and Its Consistent Intensification"]

[Text] During the time which has passed since the 26th CPSU Congress, the Soviet Union has done a great deal to further develop the national economy and to realize the party's strategic goals of increasing worker prosperity and raising the efficiency of social production. "The Soviet people," emphasized L. I. Brezhnev at the November (1981) Plenum of the CPSU Central Committee, "have entered the new five-year plan with a feeling of optimism and confidence in their own forces."

Among the most urgent problems of economic construction confronting the society of mature socialism, of primary importance is the converting of the national economy to a path of all-round intensification. This has been prepared for by the entire objective course of previous development. Even in the 1970's, the wide use of intensive growth factors, the increased return from production resources and the achieving of high end national economic results assumed priority significance in economic activities. In the 1980's, it is essential, as was pointed out at the 26th CPSU Congress, to continue and complete this major undertaking which comprises the core of the party's economic policy over the long run.

In our nation favorable prerequisites have formed for realizing the planned goals. These include the highly developed productive forces, the sociopolitical and moral unity of the people as well as the precise strategy for advancement worked out at the 26th CPSU Congress and in the materials of the November (1981) Plenum of the CPSU Central Committee. Thus, the level of accumulated economic and scientific-technical potential, as expressed in the category of national wealth, by the start of 1981 exceeded 2.7 trillion rubles (without the economic evaluation of land, mineral wealth and forests). Within its structure, 1.147 trillion rubles, or 42 percent, went to the main material part, fixed productive capital; the fixed non-productive capital comprised 22 percent, material working capital was 17 percent and the private property of citizens, 19 percent.

At present, in the USSR, on a per capita basis over 3-fold more industrial product is produced than according to the average world indicators. The list has been constantly growing for the major products for which the nation holds firm leading positions in the world. The national economy employs (as of 1980) more than 28 million specialists with a higher and specialized secondary education and 1.4 million

scientific workers. This is virtually one-quarter of the entire world contingent of scientific workers.

Production and other social relationships have achieved a high degree of maturity. The CPSU, in generalizing the practice of socialist and communist construction, has worked out, along with the other fraternal parties of the socialist nations, a concept of developed socialism and thereby has made a substantial contribution to Marxist-Leninist theory, in enriching it with new conclusions and clarifying and concretizing the ways to achieve its program goals.

At the present stage, when socialism is already developing on its own base, the creative forces and humanistic essence of the new system as well as the advantages of the socialist way of life are evermore fully disclosed. Clear proof of the more profound turning of the national economy toward the diverse tasks of increasing the well being of the Soviet people was the fact that in 1971-1980, the state allocated almost 2-fold more money to satisfy the material and spiritual needs of the workers than in the previous decade. Developed socialism provides the evermore harmonious and complete development of the worker who is the main productive force of society. It also improves the structure of his needs.

The socioeconomic essence of raising production efficiency and qualitative shifts in the management methods, in determining the depth of the CPSU economic strategy, does not exhaust the entire complex of factors determining it. An important circumstance has been the state of the entire reproduction process. The maximum levels of employment for the working-age population, the particular features of the demographic situation existing in the nation, the moving of the basic centers of the extracting industry to the East and North, as well as other phenomena in economic life operate in the same direction as the qualitative shifts. For example, at present we must consider the fact that the proportional amount of plowed lands cannot be significantly increased and that for each ruble of produced national income, according to approximate estimates, one ton of natural substance is consumed. The constant rise in the proportional expenditures for the extraction of many types of raw materials increases the importance of their economic and rational use. While in 1970, a 1 percent reduction in material expenditures for the national economy corresponded to a 3.6 billion ruble rise in national income, in 1975, the figure was 4.9 billion rubles, and in 1980, 5.5 billion rubles. By the end of the current five-year plan, this figure will reach approximately 7 billion rubles.

The conversion of the economy to an intensive path as dictated by the state of production relationships should not necessarily be linked to the phenomena of scarcity for various resources. For example, the present demographic situation caused by specific historical factors over the long run will inevitably improve. However, this cannot be viewed as a factor reducing the need to extend intensification. Many substantial features in the new quality of management such as a rise in the return on investment or a reduction in the energy intensiveness of a unit of social product are inherent to the economy regardless of the phenomena of a more or less transitory order and express objective trends in the development of mature socialism. At the same time it is essential to emphasize that the strategy and tactics of economic policy are constructed considering the specific reproduction conditions. In coinciding in their focus with the deep processes, these conditions reflect the action of objective patterns and give them a specific nature at one or another stage of economic construction.

Marxism, V. I. Lenin emphasized, requires from us the most accurate and objective consideration of the specific features in each historical moment.<sup>1</sup> The CPSU, in proceeding from the real reproduction conditions, has focused attention on those tasks the solution to which will better ensure the achieving of the economic development goals under the given conditions. On this question the 26th CPSU Congress pointed out that the rational and economic use of natural, material and labor resources is a decisive and most effective means for multiplying national wealth and for quickly increasing socialist accumulation and the consumption resources.

The specific historical situation under which the national economy will develop in the 1980's makes even more imperative the task of mass introduction of the achievements of the scientific and technical revolution into national economic practice and accelerating scientific and technical progress. "We, the communists," emphasized L. I. Brezhnev, "proceed from the view that only under the conditions of socialism does the scientific and technical revolution acquire a true direction meeting the interests of man and society. In turn, only on the basis of accelerated scientific and technical development is it possible to resolve the ultimate tasks of a social revolution, that is, a communist society built."<sup>2</sup>

The specific aim given in the materials of the 26th CPSU Congress for further progress in Soviet society is a concentrated, generalized expression of both the profound trends as well as the particular features of socioeconomic development in the 1980's. During this period the Communist Party will consistently continue to carry out its economic strategy, the highest aim of which is a continuous rise in the material and cultural standard of living of the people and creating better conditions for the all-round development of the individual on a basis of increasing the effectiveness of all social production, raising labor productivity and increasing the social and labor activeness of the Soviet people. The party is mobilizing the working masses to ensure further economic progress in society and profound qualitative shifts in the material and technical base through the intensification of social production.

Intensive economic development is achieved primarily by increasing productivity of social labor and by the efficiency of production expenditures with the better use of equipment.

Two types of development are distinguished for intensification. The first is termed capital intensive and the second is capital-saving. As was pointed out at the 26th CPSU Congress and the November (1981) Plenum of the CPSU Central Committee, at present emphasis is being put precisely on the expanded reproduction of the capital-saving type.

"At present in many sectors," commented V. V. Shcherbitskiy at the November (1981) Plenum of the UCP [Ukrainian Communist Party] Central Committee, "the more expensive, labor intensive path of intensive development predominates. Its characteristic trait is a lag in the growth rate of labor productivity behind the growth rate of the capital-to-labor ratio. As a consequence of this there is also a decline in the indicator for the return on investment.

"Considering the tasks set at the November (1981) Plenum of the CPSU Central Committee, we must pay more attention to the capital-saving path of intensive development."<sup>3</sup>

The intensive methods of managing the economy must ensure a more rapid rise in the end national economic results, in comparison with the expenditure level of labor resources, a savings of productive capital, raw products, materials and capital investments as well as the greatest possible improvement in product quality.

At the same time, all-round intensification of production does not merely come down to saving resources or to carrying out capital- and material-saving development, but also has a clearly expressed social nature. This is the broadening of the range of needs satisfied from social production, improving working conditions, ameliorating the environment, creating conditions to turn labor into the first vital necessity and increasing the rationally organized free time of the workers. In a mature socialist society there is a greater subordination of scientific and technical progress to the goals of social policy and to the tasks of constructing a classless society and the harmonious development of the individual.

In the same manner we must view the problem related to intensification of increasing production efficiency. Efficiency in the most general form expresses a certain relation between production expenditures and its results. However, these values do not exist in and of themselves, outside any relationship to the prevailing production relationships. The decisive criteria for the concept of efficiency are to be found precisely in the social causality of the management results.

For example, the advantage of farming for the landowner under feudalism was determined by the amount of rent (in kind or in money) depending upon the number of serfs. Under capitalism, effectiveness is measured by the amount of profit relative to the amount of advanced capital. Although in both instances there is the same process of weighing expenditures against results, the content of the elements forming the efficiency criteria not only do not coincide but differ fundamentally.

In a socialist society, under the conditions of the predominance of public ownership of the means of production and direct labor, social consumer value and the end national economic results from the production activities of society as a whole are the socioeconomic form of efficiency. Here the category of efficiency is also constructed on a comparison of the useful effect with expenditures on all social production.

At the same time, in considering its social causality, it is essential to emphasize two interrelated aspects. In the first place, an improvement in the end national economic results is based upon an optimization of all intermediate stages in the production of social product in the interests of achieving a high total efficiency characterized by the degree of satisfying society's needs and by the realization of the basic economic law. Secondly, the very maximization of the specific function of production is possible with an organization of the entire reproduction process whereby there is a substantial rise in the coefficient for the output of end product per unit of expenditures of live and embodied labor and natural production factors. More specifically, these demands are expressed in that form of consciously maintaining proportionality where simultaneously the tasks of increasing the capital and investment intensiveness of national income and reducing the material intensiveness of the product are carried out. It must be emphasized that the designated circumstances reflect the mechanism of the action and use of the system of economic laws in the stage of developed socialism.

In order to more fully assess the sense of the shifts occurring in the area of intensification and increasing production efficiency, it is sufficient to give certain comparisons. Thus, in recent years the rate of decline of costs has slowed down in a number of national economic sectors. According to the available calculations, during the Ninth and partially in the Tenth five-year plans, each percentage of an increase in national income in the USSR was accompanied by an increment of 1.4 percent for productive capital, 1.2 percent for material expenditures and 0.2 percent for labor expenditures.<sup>4</sup> Over the last 15 years, it has been possible to reduce the metal intensiveness of the products by almost one-third. However, just the structural changes caused by the accelerated development of sectors with high metal intensiveness absorbed more than 50 percent of the possible metal savings.<sup>5</sup> In comparison with the best world indicators per unit of national income, our nation still spends more raw products and energy.

An indicative feature of the 11th Five-Year Plan is that it envisages a more rapid rise in the end national economic results in comparison with an increase in the labor and material expenditures, including capital investments. A broad range of measures has been outlined for the most rational use of all available resources. Thus, with a rise of 10.4 percent in the total volume of capital investments, national income should increase by 18 percent. The growing relationship between economic and social progress and the effect of the end results are expressed in a further increase in the proportional amount of the consumption fund of national income from 75.3 percent in 1980 up to 78 percent in 1985. Its absolute amounts will rise to 73 billion rubles, or by 22 percent, and this will also exceed the aggregate growth rate for national income. The policy will be continued of optimizing the proportions of socialist expanded reproduction and the policy of the 26th CPSU Congress will be maintained of a more rapid growth of the "B" group sectors. The volume of machine building product, the main proponent of advanced ideas in scientific and technical progress within the national economy, will increase by 1.4-fold and this exceeds by more than 2-fold the growth rate of national income; the chemical and petrochemical products will rise by 32 percent. In the fuel and energy area, priority will be given to nuclear power as well as thermal plants operating on cheap strip-mined coals. The increase planned in the European USSR for the production of electric power at nuclear and hydropower plants will provide 43-48 percent of the savings in mineral fuel envisaged in the five-year plan. In 1981-1985, the technical reequipping and reconstruction of existing enterprises will be accelerated. As practice shows, expenditures for these purposes are repaid 2- or 3-fold faster than in creating analogous capacity with new construction.

In a mature socialist society, scientific and technical progress and the replacing of traditional equipment with new which improves the very nature of social production is a decisive area for intensifying the economy and increasing its efficiency.

The 26th CPSU Congress set the task of bringing all national economic sectors up to the leading areas of science and technology. "At present, in glancing ahead for 5 or 10 years," emphasized L. I. Brezhnev, "we cannot forget that precisely during these years the national economic structure with which our nation will enter the 21st century will be established and created. This should embody the basic traits and ideals of a new society, it should be in the vanguard of progress and embody an integration of science and production and an unshakable union of creative thought and creative labor."<sup>6</sup>

In the five-year plan of 1981-1985, for the first time specific comprehensive programs have been embodied for the major areas of science and technology. There are plans to carry out a total of 170 scientific and technical programs, including 41 specific comprehensive programs which should realize the major scientific achievements. The most responsible task is to completely organize a mechanism for introducing the scientific and technical developments into practice. There is already certain experience in the specific program approach to solving scientific and technical problems. This includes the experience of the party organizations in Moscow and Leningrad to mobilize the workers to successfully carry out the national economic plans and for accelerating scientific and technical progress; the organizations of the Kuban' and Dnepropetrovskaya Oblast in improving the quality of agricultural product; the organizations of Zaporozhskaya and Nikolayevskaya oblasts in reducing manual labor; the organizations of Kiev to introduce progressive production processes and so forth.

In the national economy the comprehensive system of product quality control has been significantly extended and the start to this was made by the collectives of the L'vov scientific organizations and enterprises. Thus, during the last five-year plan, at the L'vov Mikropryor [Microinstrument] Association, the proportional amount of superior quality product increased from 13 to 60 percent. The annual savings from introducing the system was over 700,000 rubles. This method is being successfully developed by the enterprises of Dnepropetrovskaya Oblast where the annual effect from introducing the comprehensive systems in industry has exceeded 250 million rubles. Here hundreds of thousands of tons of ferrous metals, fuel and many other resources have been saved.

Upon the initiative of the Ukrainian Academy of Sciences and the Moscow Automotive Plant imeni I. A. Likhachev, a form of integrating science and production has come into being and has been developed involving comprehensive scientific-technical and socioeconomic programs to be carried out by the academy institutes and the major enterprises and associations. As a total over the previous 5 years, the Ukrainian scientists turned over to the national economy more than 300 new production methods which are successfully being employed in ferrous metallurgy, chemistry, shipbuilding, the gas, food and other sectors. Their introduction has substantially raised the level of production mechanization and automation and product quality and reliability, as well as having reduced metal intensiveness and improved working conditions and the environment. The activities of the Ukrainian Academy of Sciences to develop fundamentally new equipment, production methods and materials on a basis of fundamental research has been approved by the CPSU Central Committee.

In 1981-1985, the Ukraine will carry out specific scientific-technical and socioeconomic programs on three levels, the republic, sectorial and regional. The republic specific programs for "labor," "the agrocomplex," "the power complex," "metal," "material intensiveness," and "sugar" are aimed at realizing key national economic problems of an intersectorial nature. On a sectorial level in each of the 37 ministries, the most important scientific and technical problems have been defined and 140 specific programs have been worked out with the aid of scientists.<sup>7</sup>

The policy of the CPSU of consistently intensifying the economy and increasing its efficiency presupposes a further improvement in the planning of scientific and technical progress. At present, in a majority of instances, the efforts are focused on a system of a partial improvement in the design of machinery and mechanisms and an

improvement in the quality parameters of traditional equipment and materials. The reserves in this area have still not been exhausted and as before there is the urgent problem of replacing manual labor with machine labor. In many regards, particularly from the viewpoint of resolving social problems, this is of primary significance.

At the same time the possibilities for the development of equipment are limited using the current basis. The efficiency indicators established in the 11th Five-Year Plan show the overcoming of the tendency for a decline in the return on investment in a number of national economic sectors. The nation, as was pointed out at the 26th CPSU Congress, extremely needs that the efforts of science, along with the elaboration of theoretical problems, to a greater degree be concentrated on solving the key national economic questions and on discoveries capable of making truly revolutionary changes in production. Thus, a substantial rise in the efficiency of electric power is impossible by further increasing the unit capacity of existing units. There must be a transition to fundamentally new technology involving the direct conversion of energy and to new-quality equipment. The development of fundamentally new equipment and production methods opens up prospects for the subsequent development of the capital-saving type of intensive reproduction, for a sharp rise in labor productivity and for progressive shifts in the capital and material intensiveness of the social product. Consequently, in order to make the economy truly efficient, it is essential to work hard. As L. I. Brezhnev said at the November (1981) Plenum of the CPSU Central Committee, with even greater tenacity we must struggle to carry out the outlined plans and to raise the level of organizational work in the area of economic construction.

The solving of the food problem is one of the central questions in the new five-year plan. At present, work is continuing on the drawing up of the food program and this should ensure the harmonious development of the entire agroindustrial complex, a dependable supply of food and agricultural raw materials for the nation, the complete satisfying of the growing needs of the Soviet people and the creation of conditions which would more actively contribute to the intensification of agricultural production, encourage the initiative of the kolkhozes and sovkhozes and force them to work not for intermediate indicators but rather for high end results.

During the current five-year plan, in the Ukraine, the average annual volume of gross agricultural product should increase by 12 percent, in comparison with 8 percent in 1976-1980. Grain production should reach an average of 51 million tons a year, that is rise by 8 million tons or 18 percent. Some 26.4 billion rubles of capital investments are to go to develop the material and technical base of agriculture. As was pointed out at the November (1981) Plenum of the UCP Central Committee, the crucial element at present has been and remains the ability in an economic manner and with maximum return to employ the allocated funds and the existing production resources.

The specific comprehensive scientific and technical Sugar Program which has been incorporated in the republic economic plan shows the great possibilities for further intensifying and increasing the efficiency of agricultural production. It envisages the harvesting of at least 38 quintals of sugar from each hectare of sugar fields. At the same time in a number of the republic oblasts, in particular in Nikolayevskaya, Zhitomirskaya and Volynskaya, the end product from a hectare of sugar beet plantings is just 21-23 quintals.<sup>8</sup>

There are also important reserves to be found in introducing chemistry into agriculture. Thus, the creation of a unified service for production agrochemical services in our nation provides an opportunity to employ chemical agents more rationally and efficiently than in the recent past. This is convincingly shown from the example of Pervomayskiy Rayon in Khar'kovskaya Oblast where they have many years' of experience in employing the agrochemical complex. In possessing all of the necessary equipment and warehouse facilities, the complex services the entire administrative rayon and each year, considering the progressive agrotechnical requirements, applies to the fields 80-85 percent of the total amount of mineral fertilizers and 65-75 percent of the organic ones.

The high effectiveness of such a method is confirmed by data on the systematic increase in the yield on the rayon's farms. While as an average for the Ninth Five-Year Plan the grain harvest was 24.1 quintals per hectare, including 25.2 for winter wheat, and sugar beets were 196 quintals per hectare, in the Tenth Five-Year Plan, the figure for grain crops was 30.7 quintals per hectare, 35.4 for winter wheat and 307 for sugar beets. In 1981-1983, analogous agrochemical associations will be set up in all the other rayons. According to preliminary estimates, the implementing of the chemical program will make it possible for the oblast farms to produce each year an additional nearly 400,000 tons of grain, 430,000 tons of sugar beets, 220,000 tons of feed units and much other product.<sup>9</sup>

A further improvement in economic management and the management mechanism is an important prerequisite for extending the intensification of social production. The 26th CPSU Congress posed the task of increasing the economic management level, more fully combining centralized management with independence and initiative for the enterprises and ubiquitously introducing advanced socialist management methods.

The congress advanced the fundamental ideas that "the economy should be economic." The entire economic mechanism should be brought into conformity with this. Much has already been done in this area, however unresolved problems remain. In speaking at the November (1981) Plenum of the CPSU Central Committee, L. I. Brezhnev emphasized that in working on carrying out the five-year plan, we at the same time should improve the economic mechanism and the entire management system. Here a most important element is the strengthening of the role of the five-year plan, turning it into the basic form of planning and a consistent struggle against violations of planning discipline. The desire of certain enterprises and associations to adopt insufficiently taut plans for production development and for carrying out measures to encourage scientific and technical progress and to revise the plans downwards under various pretexts causes great harm to the national economy and its balancing.

The CPSU has focused efforts on eliminating everything in the economic mechanism which makes the process of introducing the new and progressive more difficult, slow and painful or impedes the all-round integration of science and production. We must bring even closer--in economic and organizational terms--the scientific research and design work with production, improve product quality and strengthen the effectiveness of the material and moral incentives for labor.

The center of gravity in the tasks of intensifying social production and increasing its efficiency is now to be shifted to the area of practical actions. This means further progress in science and technology, a nationwide struggle for better

utilizing the acquired potential and a sharp decline in manual labor on the basis of the mechanization and automation of the production processes. This, finally, is the simple and even ordinary question of strengthening the proper economic attitude toward the social good as well as creating in each production area and in all spheres of management a situation of high organization, professionalism, the complete observance of state and labor discipline and the unconditional fulfillment of the state economic and social development plan for 1982 and for the five-year plan as a whole.

#### FOOTNOTES

- <sup>1</sup> See: V. I. Lenin, PSS [Complete Collected Works], Vol 31, p 132.
- <sup>2</sup> L. I. Brezhnev, "Leninskim kursom" [By the Leninist Course], Vol 5, Moscow, Politizdat, p 501.
- <sup>3</sup> PRAVDA UKRAINY, 26 November 1981.
- <sup>4</sup> See VOPROSY EKONOMIKI, No 11, 1981, p 4.
- <sup>5</sup> Ibid., p 18.
- <sup>6</sup> "Materialy XXVI s"yezda KPSS" [Materials of the 26th CPSU Congress], Moscow, Politizdat, 1981, p 44.
- <sup>7</sup> See: PRAVDA, 23 October 1981.
- <sup>8</sup> See: KOMMUNIST UKRAINY, No 12, 1981, p 36.
- <sup>9</sup> See: Ibid., No 1, 1982, p 59.

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## REGIONAL DEVELOPMENT

### PROPOSALS TO IMPROVE FIXED CAPITAL UTILIZATION DESCRIBED

Kiev EKONOMIKA SOVETSKOY UKRAINY in Russian No 3, Mar 82 pp 34-39

[Article by N. Ivanov, professor, doctor of economic sciences and corresponding member of the Ukrainian Academy of Sciences, Ye. Levina and V. Mikhal'skaya, candidates of economic science (Donetsk): "The Reproduction and Use of Fixed Capital"]

[Text] The increase in the nation's economic potential and the acceleration of scientific and technical progress are inseparably linked with expanded reproduction of fixed capital and its effective utilization. The report of the General Secretary of the CPSU Central Committee L. I. Brezhnev at the 26th CPSU Congress pointed to the great responsibility "...for utilizing the enormous potential created by the Soviet people in an economic manner and with a full return." A characteristic trait of socialist construction is the natural, continuous growth of capital investments and fixed capital. The total amount of capital investments by the republic state and cooperative enterprises and organizations in 1961-1979 reached 204.9 billion rubles, and in 1979, in comparison with 1965, had more than doubled. Over the last 14 years, the average annual volume of completing fixed capital was over 14 million rubles.<sup>1</sup> The high industrial development rates in the republic have created powerful production potential. The fixed productive capital of Ukrainian industry, in comprising the material and technical base of the entire republic economic complex, at the start of 1980 reached 89 billion rubles. In comparison with 1970, it had increased by 89 percent, and in comparison with 1975, by almost 30 percent. In 1976-1979, 28 percent of the fixed productive capital in industry was renewed.

In social reproduction, the importance of the sphere of fixed capital reproduction is increasing. In 1965-1975, the fixed productive capital in Soviet industry increased by 3.1-fold while the number of workers rose by only 33 percent. In 1979, live labor was involved in the production process some 2.3-fold more than embodied labor accumulated in the fixed capital in comparison with 1965. Here the production volume of industrial product has continuously increased. While in 1965, the labor of 119.6 persons was spent for producing 1 million rubles of industrial product, in 1979 the figure was 61.3 persons.<sup>2</sup>

The development rate of the capital-creating sectors has also been accelerating. The share of construction in gross social product has been rising while the fixed productive capital functioning in this national economic sector increased by 4.3-fold in 1979 in comparison with 1965 while the number of employees rose by 58 percent. Another very important capital-creating sector, machine building, has also

developed rapidly. Over the designated period, the product of the machine building and metalworking enterprises rose by 4.3-fold.<sup>3</sup> The increased role of fixed capital in the process of expanded socialist reproduction, as the basic physical element of the productive forces, creates the material basis for a rise in the capital-to-labor ratio and labor productivity and for ensuring steady rates and proportions in the development of social production.

Intensive factors are being strengthened in fixed capital reproduction. Along with the quantitative growth of the enormous bulk of accumulated means of labor, a social need has arisen for their qualitative improvement. The increase rates of fixed capital have slowed down, while the national economic development indicators have been achieved with a smaller increase rate of capital investments. Thus, the average annual increase rate of capital investments at the state and cooperative enterprises and organizations in the Ukraine during the Sixth Five-Year Plan was 13.6 percent, with 6.7 percent in the Seventh, 6.4 percent in the Eighth and Ninth, and 3.7 percent in the Tenth with an average increase rate of 7.6 percent in 1951-1979. A steady trend in the formation of fixed productive capital in industry has been the predominant growth of the progressive sectors such as oil and gas production, electronics, the chemical and petrochemical, machine building and metalworking industries as these ensure technical progress and production intensification.

Reproduction Structure of Capital Investments into Ukrainian Industry (in %)

| Industrial Sector                           | 1971-1975               |              | 1976-1979   |              |
|---------------------------------------------|-------------------------|--------------|-------------|--------------|
|                                             | Capital Investments for |              |             |              |
|                                             | Replacement             | Accumulation | Replacement | Accumulation |
| Industry--Total                             | 17.4                    | 82.6         | 20.8        | 79.2         |
| Electric power                              | 9.5                     | 90.5         | 13.0        | 87.0         |
| Fuel industry                               | 47.4                    | 52.6         | 46.2        | 53.8         |
| Ferrous metallurgy                          | 17.3                    | 82.7         | 19.4        | 80.6         |
| Chemical and petrochemical industry         | 12.3                    | 87.7         | 12.0        | 88.0         |
| Machine building and metalworking           | 11.5                    | 88.5         | 11.9        | 88.1         |
| Lumber, woodworking and pulp-paper industry | 23.8                    | 76.2         | 25.3        | 74.7         |
| Building materials industry                 | 40.0                    | 60.0         | 47.9        | 52.1         |

There has been an increase in the share of capital investments going to replace worn out fixed capital, that is, for renewing and improving the production apparatus of existing enterprises. Over the last 10 years alone, in Ukrainian industry this share has risen by 3.4 percent in relation to the total volume of capital investments (see the Table).

The increased intensification of fixed capital reproduction in the republic industry has been characterized by a rise in the technical progressiveness of the means of labor, that is: by a reduction in servicing time of the active portion of fixed capital, including machinery and equipment; by an improvement in the specific

structure of the capital as a result of increasing expenditures on equipment, tools and supplies in the total capital investment volume; by a rise in the power-labor ratio. Thus, the maximum service times of metal-cutting machines adopted in setting the amortization rates in 1973 have been reduced by almost 17 percent in comparison with 1963. The service times of machinery and equipment in ferrous and nonferrous metallurgy have been reduced by the same amount. In the chemical industry and building materials industry, the normed service time has been reduced, respectively, by 17.5 and 11.7 percent. In accord with the new amortization rates, the average service time for fixed productive capital in Ukrainian industry has been reduced (according to 1979 data) by 17 percent in comparison with the old rates, including by 22 percent for the active portion. Under the influence of scientific and technical progress, a more progressive technological structure of the fixed productive capital has been formed and there has been a rise in production mechanization and an increase in equipment unit capacity. Equipment for full automation and mechanization have been introduced making it possible to perform all operations involved in producing the product without human participation with now man performing the control functions. Self-adjusting automatic devices and control computers are being introduced and these select the optimum program; automatic shops and enterprises are being created. The share of expenditures for equipment, tools and supplies in the total amount of capital investment over the last 5 years has risen by 9 percent while the share of the active portion of fixed productive capital has increased by 5 percent. Over this period the power to labor ratio in Ukrainian industry has increased by 31 percent.

At the same time, the effectiveness of fixed capital reproduction is still insufficient. In 1970-1979, capital investments into the republic economy increased by 47 percent, while produced national income rose by 46 percent. Calculations showed that in Ukrainian industry the increase in the capital output ratio for the product (obtained from newly completed fixed capital) was 11 percent higher than the 1975 average, and 65 percent in 1979. The reasons for such a situation are to be found in design shortcomings, the scattering of capital investments, their insufficient concentration and so forth. An essential condition for increasing the effectiveness of fixed capital reproduction is the observing of the normed times for its formation and development. At present in practice these times are often exceeded and this leads to the physical wear and obsolescence of the equipment and design solutions. In developing new machinery and equipment, it is essential to observe the conditions for the more rapid growth of their productivity in relation to the increased cost of a unit of capacity. At the same time such a relationship is often violated. Thus, the average cost of a unit of capacity of new equipment for coal mining has risen by 7-fold in comparison with the equipment to be replaced, while its productivity has increased by only 2-3-fold.

Production concentration is an important factor in improving the use of the accumulated fixed capital. At large enterprises there is better use of aggregate labor embodied in the means of production as well as live labor equipped with more advanced and productive equipment. An opportunity is created to more widely introduce the achievements of scientific and technical progress and to employ highly productive machines and equipment, advanced production methods and a rational organization of labor and production. The introduction of more powerful equipment reduces the cost of a unit of capacity and as a whole the consolidation of production is accompanied by a decline in production outlays and by the more efficient use of material

and monetary resources. During the years of the Tenth Five-Year Plan, the process of concentrating industrial production has been continued. With an increased level of concentration, the capital-to-labor ratio and labor productivity rise and the return on investment is increased. For example, at the enterprises of Donetskaya Oblast with a gross product volume over 50 million rubles, the return on investment is 1.4-fold higher than at enterprises with a gross product under 1 million rubles; in Zaporozhskaya Oblast this is 4-fold higher.

One of the most important factors determining the efficient use of fixed productive capital is the introduction of new, highly productive and progressive equipment into production and the qualitative improving of the employed means of labor on a basis of scientific and technical achievements. Calculations have shown that at coal mines a 1 percent rise in the technical level of coal mining and the active portion of fixed capital involves an increase of 2.6 percent in the capital productivity ratio. With an increase in the technical equipping of production, there is a higher capital-to-labor ratio and labor productivity than as an average for industry or the sector. Analysis has shown that the capital-to-labor ratio at the republic enterprises which have been fully mechanized for basic production is significantly higher than the average industrial level. To a significant degree this has ensured a high level of labor productivity and capital productivity ratio, exceeding the industrial average by 16.7 percent.

The experience of the advanced industrial collectives shows that along with positive results in increasing the technical equipping of the enterprises, full mechanization and automation of production, there are significant reserves for increasing the pace and efficiency. The share of manual labor is still high. In Soviet industry at present around 9 million workers are employed in manual jobs. The expenditures of manual labor are particularly high in auxiliary, freight handling and repair work.

One of the reserves for increasing the effectiveness of fixed capital in machine building and the other sectors of the manufacturing industry is a rise in the shift factor. This provides an opportunity to obtain an additional amount of product without a substantial increase in the capital investments. The analysis made has shown that at the nation's machine building enterprises in 1960-1973, the shift factor declined unevenly, then rose and in 1977 was 1.36.

According to the data of a one-shot survey of 50 machine building and metalworking enterprises in the Ukraine, on 15 May 1980 the shift factor averaged 1.41. The highest shift factors were achieved at enterprises with a high level of production concentration. According to data on the use of metal-cutting machines, it was established that the shift factor and the proportional amount of operating equipment increased as the amount of installed equipment rises at the enterprises. Thus, for the group of enterprises where 101-200 metal-cutting machines have been installed, at the moment of the survey 79 percent of all the machines were in operation and the shift factor was 1.06; with over 2,000 installed machines, these indicators were, respectively, 89 percent and 1.46. Along with increased production concentration, important areas for increasing the shift factor are: releasing workers by introducing automation and advanced production methods, by mechanizing warehouse and freight handling work; deepening specialization and cooperation of ties within the enterprises and associations. An important reserve is the converting of the machine tool operators from one-shift conditions to two-shift ones with a simultaneous

reduction in the amount of equipment, chiefly the obsolete. It is essential to solve the question of material incentives and domestic services. It must be pointed out that on the third shift it is possible to operate equipment the use of which with the set product range is a "bottleneck" at the enterprises. The possibility of "widening" it involves real reserves for increasing the equipment shift factor by 0.5 shift and for bringing it up to 1.9. Along with extensive use, the intensive use of equipment is also of important significance and this is characterized by the intensity of its operation per unit of time. In the nation's industry, the intensive load factor for machinery in 1965-1979 predominantly increased. Thus, the average daily steel output per square meter of open hearth furnace floor rose from 8.55 to 9.49 tons, the hourly productivity of the rotating cement kilns increased from 21.4 to 32.3 tons, and the use factor for the effective volume of the blast furnaces increased from 0.662 to 0.566 m<sup>3</sup> per ton according to the nominal time fund and this characterizes their better utilization.<sup>4</sup> A rise in the intensive load factor leads to a reduction of the production cycle, to the accelerated turnover of assets and to an increase in the production volume.

In the decisions of the 26th CPSU Congress and the 26th UCP [Ukrainian Communist Party] Congress, the acceleration of scientific and technical progress and the converting of the economy to the intensive development path and the more rational utilization of production potential are viewed as major ways for resolving the main task of the 11th Five-Year Plan. The basic area for further intensifying reproduction and for the use of fixed capital under present-day conditions is the broadening of the scale of its renovation by replacing worn out and obsolete means of labor with more advanced ones. Each year a significant quantity of obsolete types of product is taken out of production and new ones are introduced. As was pointed out in his report at the 26th UCP Congress by the First Secretary of the UCP Central Committee, V. V. Shcherbitskiy, in the republic over the Tenth Five-Year Plan "...almost 4,000 new types of equipment were developed. Each year the national economy received an average of more than 11,000 developments with an economic effect of over 1.5 billion rubles. The industrial enterprises have developed series production of 4,600 new product types.... Some 8,700 enterprises, shops and sections have been fully mechanized and automated and 12,500 automatic and mechanized flow lines have been put into operation."<sup>5</sup>

At the same time, an analysis of management practices shows that the obsolete and worn out means of labor are not being replaced at a sufficient pace. In Ukrainian industry, in 1965-1979, the annual rates for introducing new fixed capital (the average renovation coefficient) varied within the limits of 7.5-9.2, while the annual renovation rates by replacing the old means of labor with new ones (the average withdrawal coefficient) was 1.5-1.6, that is, this was 4.7-5.7-fold less than the rate of introducing new fixed capital. This shows the prevalence of fixed capital renovation by putting new enterprises and capacity at existing enterprises into operation while the qualitative upgrading of previously created fixed capital by replacing it with more progressive was carried out on a comparatively small scale. Only 20-30 percent of the fixed capital went to replace and renovate the obsolete and worn out means of labor in the Tenth Five-Year Plan, while the remaining 70-80 percent went for the construction and expansion of existing projects. Practice shows that with large amounts of new construction and expansion of existing projects and with insufficient investments into the replacement of obsolete and worn out equipment, a large number of new jobs is created and these cannot be

completely filled with labor resources under the conditions of the manpower shortage. This is one of the essential factors for the deterioration of the use of newly created fixed productive capital.

The insufficient pace of renovating fixed capital at existing enterprises has caused the operation of a significant portion of worn out and obsolete equipment, primarily basic production equipment. In Ukrainian industry, the average normed service lives of the fixed capital, in not fully reflecting the effect of the time factor and the related obsolescence, are around 20 years and for the individual sectors these vary from 15 to 32 years. For the active portion, service lives are 13 years. The actual service lives significantly exceed the normed. For a further intensification in industrial production, it is essential to accelerate the withdrawal of obsolete and worn out means of labor from production and replace them with more advanced ones. One of the basic reasons for the insufficient fixed capital renovation rate is the taut equipment balance. Machine building is not supplying all the industrial sectors with new equipment in the amounts needed for expanded reproduction and for replacing the withdrawn according to the normed times. The high rates in the development and expansion of industrial production and the lag in the machine building base have led to a situation where the planning bodies often view the allocating of material resources to replace obsolete means of labor as a secondary question. A large portion of the amortization fund earmarked for replacement purposes is used as a source of expanded reproduction. In the Tenth Five-Year Plan, around 55 percent of the increase in the fixed productive capital for Ukrainian industry came from the replacement fund and only 45 percent from the accumulation fund.

An important reason for the insufficient renovation of fixed capital has been the absence of scientific studies for the scale of its replacement, proceeding from the normed turnover rate of fixed capital. This process is virtually unplanned while equipment is replaced as it is required to withdraw worn out means of labor from operation. Along with the low rate of replacing obsolete equipment with new, in many industrial sectors the scale of renovating fixed capital in accord with the requirements of the developing scientific and technical revolution is insufficient. This can be seen in the imperfection of the machine building product structure since quotas are set for the machine building enterprises for manufacturing chiefly individual types of machines and not sets of equipment.

The operation of a large amount of obsolete equipment leads to a rise in the socially necessary labor expenditures for product output, it artificially restrains the introduction of new equipment and slows down the pace of technical progress. With an increased service life of the equipment, its work capacity is reduced, the length of time between repairs is shortened and expenditures for repairing and operating the machines increase sharply. Suffice it to say that over the last 15 years, expenditures on major overhaul in republic industry have increased by 3-fold. They have exceeded by 1.9-fold the amount of capital investments to replace withdrawn fixed capital. Under these conditions, effective and decisive measures are needed to bring the entire industrial production apparatus into accord with the present-day requirements of scientific and technical progress and to bring this up to the level of world standards on a basis of the integrated technical reequipping and reconstruction of the industrial base.

Intensifying the renovation of the production apparatus serves as an essential condition for increasing the effectiveness of social production. Broadening the scale

of replacing old machinery and equipment with new, more productive and modern ones provides a maximum product output per unit of fixed capital. The intensification of renovation presupposes increased expenditures on replacement and a slowdown in the growth rate of the fixed productive capital. This creates an opportunity to improve its utilization. Here an essential condition for increasing the capital productivity ratio is planning fixed capital growth on a level which would exceed the growth of the product output volume. With an increase in the share of renovated machines and equipment in the entire employed mass of them, not only does the volume of produced product increase but also there is a relative release of employees as a result of the higher level of the equipment and the degree of mechanizing and automating the production processes. In Ukrainian industry, in 1976-1979, as a result of introducing new equipment, the relative release of workers was 461,000 persons. Moreover, the slowdown in the growth rate of the accumulation of fixed capital (new construction and the expansion of operating enterprises) reduced the additional involvement of workers in the production process. Thus, the intensification of fixed capital renovation provides a rise in labor productivity and all social production.

The basic directions for the economic and social development of the USSR for 1981-1985 and for the period up to 1990 as adopted by the 26th CPSU Congress provide "...the more rational use of production capacity, the wider introduction of highly productive equipment, an improvement in the structure and simultaneously the renovation of existing fixed capital."

In the 11th Five-Year Plan, the main direction for the technical reequipping and reconstruction of the technical base of industry should be a sharp qualitative renovation of the production apparatus in the aim of bringing its basic performance in all the industrial sectors and at each enterprise up to the level of the world standards. Progressive production methods which ensure transformations in production should lie at the basis of the technical reequipping. For this purpose it is essential to create base enterprises which ensure the accelerated development of new production on the basis of progressive production methods.

The technical reequipping of the industrial sectors as a whole should be the leading factor as this provides a sharp rise in the technical level of production, an improvement in the quality of the produced product and the satisfying of the national economy's demand for this product. For this purpose it is advisable to create new large industrial enterprises similar to the VAZ [Volga Automotive Plant] imeni 50-letiya SSSR as these meet the requirements of the present-day scientific and technical revolution, they provide a significant improvement in the production structure and are able to replace the models of machinery and equipment before they become obsolete.

For the technical reequipping of existing enterprises, the new equipment must be manufactured as sets in accord with the elaborated plans for the technical reequipping of individual enterprises, production facilities, shops, lines and sections. In line with this machine building must be refocused to produce new production complexes. The need has arisen and the opportunities are at hand for orienting the machine building enterprises to produce plants the entire process of which is based upon the employment of new progressive production methods.

Under present-day conditions of scientific and technical progress, the times for the replacement of machinery models are 6-8 years. This provides grounds to conclude that it is possible and necessary to accelerate the renovation rate and to further shorten the period of time during which the means of labor are operated. For withdrawing obsolete equipment from production and for increasing the pace and scale of renovating the existing fixed productive capital in Ukrainian industry, it is essential to increase the share of capital investments going for replacement. The accelerated pace of scientific and technical progress and the increased cost of a unit of newly completed capacity necessitate a constant rise in the withdrawal coefficient for the active portion of fixed productive capital in Ukrainian industry up to 4-5 percent, while expenditures for their renovation in the capital investment volume should increase by approximately 2-2.5-fold. Expenditures for replacement will be made by replacing the withdrawn equipment and by reconstructing and technically reequipping the existing enterprises. This means that the share of capital investments going for reconstruction and technical reequipping will be increased by reducing the absolute and relative amounts of investments into new construction and expansion.

For ensuring the planned growth rates for the renewal of the active portion of fixed productive capital, it is essential, first of all, to increase capital investments into machine building, particularly for producing the new, most progressive equipment. Expenditures on replacing the fixed productive capital in this sector at present are 11-13 percent of the total amount of the completed fixed capital. This is almost 100 percent below the average industrial level. It is essential to gradually increase expenditures on replacement in machine building and metal working by 4-4.5-fold, proceeding from the normed fixed capital turnover rate.

The expanding of the scale of fixed capital renovation requires, in turn, a solution to a number of interrelated problems. First of all, for increasing the effectiveness of the reproduction and use of fixed capital, it is essential to create an effective intrasectorial system for managing the sale of equipment released as a result of its replacement by new but where the technical condition of the old equipment allows it to be employed in the national economy. Such a system presupposes an improvement in the reporting and accounting of withdrawn equipment, the transfer to and receiving back from repairs and the establishing of its selling price considering the degree of usability.

A solution must be provided for the problem of the financial support for intensifying the renovation of fixed capital. Amortization deductions for renovation at present are the source of the financial coverage of not only expenditures on the replacement of withdrawn fixed capital (they exceed the amount of this by an average of almost 3-fold for industry) but also the expenditures on expanded reproduction. Here a large portion of the amortization fund earmarked for replacement purposes serves as a source of expanded reproduction. The proposed increase in expenditures on replacement can be provided by increasing the share of the amortization fund going for replacement up to 75-85 percent and correspondingly reducing its share for accumulation. Moreover, the amortization fund as a whole by raising the amortization rate for individual types of equipment the actual service lives of which are significantly below the normed. Thus, in the coal industry the actual service lives are 31 percent lower than the normed for a cutter, 51 percent lower for sections of mechanized shoring and 54 percent lower for centrifugal pumps.

As a consequence of this the shortage of amortization deductions for the equipment was around 2 percent of its total value. A shortening of the service lives of fixed capital as caused by obsolescence, the intensification of its use, by a change in the fixed capital structure in the direction of increasing the proportional amount of its active portion under the effect of scientific and technical progress, objectively accelerates the renovation of fixed capital. For this reason, it is reasonable to expect a revision of the amortization rates for individual types of equipment before the end of the 1990's. This will bring them closer to the real processes of physical wear and obsolescence of fixed capital. It is also advisable to increase the amortization fund for renovation by respectively reducing deductions for major overhauls within the limits set depending upon the pace of scientific and technical progress and the effectiveness of fixed capital renovation.

#### FOOTNOTES

- <sup>1</sup> "Narodnoye khozyaystvo Ukrainskoy SSR v 1979 godu" [The Ukrainian Economy in 1979], Statistical Annual, Kiev, Tekhnika, 1980, pp 197-202.
- <sup>2</sup> "Narodnoye khozyaystvo SSSR v 1979 godu" [The Soviet National Economy in 1979], Statistical Annual, Moscow, Statistika, 1980, pp 54, 147.
- <sup>3</sup> Ibid., pp 54, 139, 357, 381.
- <sup>4</sup> Ibid., pp 175, 196.
- <sup>5</sup> "Materialy XXVI s"yezda KPU" [Materials of the 26th UCP Congress], Kiev, Politizdat Ukrainy, 1981, p 11.

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## REGIONAL DEVELOPMENT

### USE OF LONG-TERM, DIRECT SUPPLY ARRANGEMENTS URGED

Kiev EKONOMIKA SOVETSKOY UKRAINY in Russian No 2, Feb 82 pp 32-37

[Article by Candidate of Economic Sciences L. Nezhinskaya and L. Prokhorova, Senior Instructor at the Advanced Training Institute for Material and Technical Supply Workers: "Direct Long-Term Ties as a Factor in the Balancing of Production with Demand"]

[Text] The party's strategic course of making full use of the nation's economic potential, of the greatest possible rise in the efficiency of social production and work quality and of intensely developing the economy envisages a high level of coordination in the economic mechanism. The comprehensive approach to improving it, as outlined in the Decree of the CPSU Central Committee and the USSR Council of Ministers "On Improving Planning and Strengthening the Effect of the Economic Mechanism on Raising Production Efficiency and Work Quality" presupposes that the forms, links and elements comprising this mechanism require complete intercausality and reciprocal conformity. On this level, of particular significance is an improvement in material and technical supply the necessity of which was emphasized in the speech of L. I. Brezhnev at the November (1981) Plenum of the CPSU Central Committee.

The smoothness of the economic mechanism depends largely upon the achieving of complete balance of production with resources, on the one hand, and with demand, on the other. The decisions of the 26th CPSU Congress pointed to the unconditional necessity of a realistic and balanced plan. Here the greatest urgency is to ensure balancing on a level of the production associations and enterprises between the production plans and the concrete needs.

Such balancing is basic for elaborating and approving plans which most dependably take into account the needs of production and the population for product assortment, range, models and quality. At the same time this balancing requires a complete agreement between the procedure for drawing up the production plans and the employed forms of economic ties between the producers and consumers of the products. At the present stage the most progressive form is the direct long-term economic ties (DLTET) which operate as an important factor in the balancing of the production plans with the material resources on the level of the production associations and enterprises.

In Ukrainian industry even by the end of the 10th Five-Year Plan, the associations and enterprises of the automotive and tractor industries, agricultural machine

building, railway car building and a number of other sectors had been converted to the DLTET. In 1980, we basically completed the transition of enterprises to these ties for the entire product range approved for this by the USSR Gosplan. At the start of 1981, in the republic some 2,098 associations and enterprises received their products under DLTET while the total volume of deliveries under such ties exceeded 3.6 billion rubles (this is 2-fold more in comparison with 1975). Some 94.7 percent of the deliveries which should be covered by the DLTET has been converted to this form of ties.

At the same time, we have not fully utilized the reserves for converting to the DLTET enterprises with small-series and individual types of production and with large delivery volumes. The wholesale material and technical supply organizations (enterprises involved in the product deliveries) are not sufficiently involved in this form of ties. The soyuzglavsnabsbyts [all-Union main administrations for supply and marketing] have not properly assigned the enterprises to the DLTET or converted the corresponding deliveries for the required basic types of products, regardless of the presence of sound proposals from the Ukrainian Gosplan. The stability of the direct ties has been disrupted.

But under such conditions during the 10th Five-Year Plan each year there was a significant rise in the volume and proportional amount of deliveries under the DLTET. For the first time this form of ties was extended to 34 ministries (departments) and 24 product types. There was also a certain increase in the volume of deliveries under the DLTET between the manufacturing enterprises and the metal depots. The consumer enterprises have employed all the possible variations for converting to these ties, including: receiving one type of product from a specific manufacturing enterprise (for example, rolled sheet) in a volume of at least 12 carload rates per year or for several types of products (sheet, springs) with a total consumption volume of at least 12 carload norms; steady independent shipping out of the product regardless of the volume of consumed product. At the same time, the high interest of the consumers in deliveries under the DLTET does not exclude a number of organizational shortcomings in developing this important form of economic ties. The main ones are related, in our opinion, to the presence of a traditional notion developed in previous decades about the functions of the DLTET as well as to an insufficiently profound understanding on the part of many production workers and particularly those in material and technical supply about the essence and place of such ties in the system of socialist production planning under the conditions of developed socialism. Precisely a precise consideration of the essential traits of the DLTET makes it possible to ensure a matching of production with the specific needs, that is, to realize the main advantages of such a form of economic ties.

The stability of the DLTET contributes to prompt consideration of consumer requirements and the prompt preparation of production by the manufacturer for satisfying them. Constant working contacts and a knowledge of the actual situation existing at the consumer's and supplier's make it possible to effectively operate the entire chain of involved partners. The directness of the ties provides an opportunity to consider in the manufacturer's plan the specific product properties and its assortment needed by the consumer in the year being planned. The consumer enterprise in actuality becomes the chief link in determining the assortment being planned. An opportunity appears to obtain articles with the necessary parameters and performance, only in the consolidated form envisaged by the State Standards, to clarify the tolerances, the class of precision the manufacturing method and so forth. The

DLTET make it possible in a working procedure to disclose and effectively carry out the tasks arising in the production process and to consider the mutual interests in full accord with the interests of the national economy as a whole. The converting to DLTET, in particular, at the Zaporozh'ye AvtoZAZ [Motor Vehicle] Association made it possible for it to significantly reduce the range of metal to be received on a basis of coordinating the grades of rolled metal received from the metallurgical plants. As a result it was possible to save more than 1,000 tons of rolled metal, 106 tons of steel pipe and 22 tons of rolled bronze due to this.

The main role of the DLTET is linked to the formation of the manufacturer's order portfolio and production program on their basis. The essence of the DLTET is also that from the results of the delivery conditions agreed upon between the consumer and manufacturer, a production program and a product delivery schedule are drawn up. This was particularly emphasized in the decisions of the 25th CPSU Congress and in the Decree of the CPSU Central Committee and the USSR Council of Ministers of 12 July 1979. However, as yet the DLTET, the production program and also the delivery schedule are basically formed independently of one another, without being correlated and not completely corresponding to one another. Thus, in the 1980's the DLTET continue to be developed basically as a method of material and technical supply similar to what was the case 10-15 years ago.

Up to the present the volume of deliveries under contracts for a 5-year period based on the DLTET was planned by the snabsbyts [supply and marketing administrations] in a detailed product range. That is, the material and technical supply bodies often, as before, themselves set the grades, assortment and parameters for the products being sent to the consumers which maintained direct long-term ties with the manufacturers. But this contradicted the very essence of such ties and the direct views of the party and government on this question. As was provided in the Decree of the CPSU Central Committee and the USSR Council of Ministers of 12 July 1979, the conversion of the production associations and enterprises to direct long-term ties meant that the volume of product deliveries under the contracts for the 5-year period should be set for a group and not for a detailed product range. The detailed assortment was to be determined upon agreement between the consumer and the manufacturer. Actually only in certain republic glavsnabs of the Ukrainian Gossnab was the volume of deliveries by the end of 1980 set in a group product range. These were Ukrglavelektro [Ukrainian Main Administration for the Supply and Marketing of Electrical Engineering Products], Ukrglavkhim [Ukrainian Main Administration for the Supply and Marketing of Chemical and Industrial Rubber Products] and Ukrglavmetall [Ukrainian Main Administration for the Supply and Marketing of Metal Products]. The remaining republic glavks [main administrations] of the Ukrainian Gossnab set the delivery volume for a detailed product range.

The principles for organizing the DLTET as a whole are determined by the planned nature of production development and the purpose of these ties is to be a means for mobilizing reserves to achieve the goal set by the party over the next 5 years. The methodology for planning the DLTET is also directly linked with the methodology of centralized planning. It proceeds from the progress of the national economy, from the systematic increase in production capacity, from the strengthening of production concentration and specialization and from the creating of new transport lines of communications. The presence of a complex interaction between the designated factors determines the methods for planning the DLTET and these methods consider all the factors for effective development and presuppose the obligatory use of

computers. Therefore, the fears that in planning on the basis of orders formed under the DLTET the enterprises and associations will be representing themselves and deprived of centralized planned leadership have no grounds. It is a different matter that the methods of planning the DLTET on a national economic scale and a scale of sector groups require an improvement. This work is being continued on the basis of a comprehensive approach to improving the planning of socialist production.

Being centrally regulated, the DLTET at the same time serve as prerequisites for the development of the economic independence of the associations and enterprises. They help to broaden the economic rights and duties of the enterprises and provide them an opportunity to be not only the executors of the plan but also the active, fully empowered and responsible participants in the forming of these plans. Thus, an opportunity arises for the fuller utilization of cost accounting and a real basis for improving the combination of centralized leadership with the economic independence of the production enterprises and associations.

Attention must be paid to the subjective factor which is an obstacle in the fruitful development of the DLTET. For example, the following fact is well known. In determining the assumed limits for the development of the DLTET, the departmental material and technical supply organizations have allowed the possibility of "consolidating" the suppliers and consumers which have been converted to the DLTET to the scale of the fund holders. This has been justified by the fact that the systematizing of demands for all consumers for technical management, for example, of a ministry or department will make it possible to obtain a variation of the production and delivery plan that is acceptable for both sides than with the individual approval of delivery conditions by each consumer with each manufacturer. But with such an approach the essence of the DLTET is completely distorted.

The successful introduction and effectiveness of the DLTET depend largely upon whether or not the conservatism has been eliminated in resolving the questions of their development. Simultaneously with improving the planning methodology for such ties, it is essential to strengthen the organizing effect and the active intermediacy in organizing them by the bodies of the USSR and Ukrainian Gosplan. Certainly the solution to a number of problems posed by the party in the area of completing the transition of the associations and enterprises to the DLTET to a significant degree will depend upon the coordinated actions of the ministries and departments with the bodies of the USSR and Ukrainian Gosplan. Such coordination is essential in selecting the enterprises and the product range to be converted to the DLTET and in establishing control over the stable and long-term functioning of these ties as well as over the system of their economic incentives. It is advisable to systematically propagandize the existing positive experience in organizing the DLTET and, in particular, the experience of Ukrglavkhim as well as to disclose the role and place of the DLTET in the system of centralized planning for social production in the press and in the process of the economic training of the personnel.

The next economic condition for the successful development of the DLTET and for increasing their effect on balancing the production plan with specific demands is to more actively involve the wholesale elements of material-technical supply and trade in the system of DLTET. The problem is that the consumers of small product batches cannot enter into DLTET with manufacturers. At the same time, small-batch orders should also be precisely shown in the manufacturers production program. For this,

they should first be consolidated. The consolidating of small-lot orders and the compiling of a summary order on this basis is the direct function of enterprises involved in delivering products under the Ukrainian Gosstob as well as the wholesale-retail firms of the Ukrainian Ministry of Trade. In part, they now carry out such work. But the consolidation of orders is now done on the basis of the preliminary accumulation of consumer orders and strictly within the limits of the allocated funds for purchasing industrial articles. The attempts by the territorial snab-sbysts to form a summary order on the basis of an independent study of demand for all consumers of small product lots in a given region, without the preliminary accumulation of their orders, as yet have not been supported by the superior levels. At the same time such a solution to the problem would help in better supplying consumers with small product batches and improving the entire management structure for both industrial production as well as material-technical supply and trade.

The relationship between enterprise independence and the controlling effect of the central planning bodies on the production program cannot be the same for the different types of products. Initiative of enterprises and associations should be granted broadest scope in the production of consumer goods. The successful sale of such products depends completely upon how accurately the structure of the public's solvent demand is reflected in the production structure. The decisions of the 26th CPSU Congress orient the producers and the trade workers to broaden the sphere of action of the direct long-term ties between industry and trade. In concluding contracts for a 5-year period with the industrial associations and enterprises, the trade organizations should determine the delivery volume in a group product range. This product range is detailed and adjusted directly by the DLTET partners not later than 6 weeks prior to the start of the year.

On a basis of increased monetary income for the public and the greater production volume of consumer goods during the 10th Five-Year Plan there was an intensive growth of trade. However, this growth was accompanied by the corresponding qualitative shifts. These were shifts which, as was pointed out in the speech of L. I. Brezhnev at the October (1980) Plenum of the CPSU Central Committee, involved both the quantity and quality as well as the assortment of these goods and which are also required by a rise in the people's well being. The further development of consumer goods production based upon a well thought-out long-range program, as is envisaged by the decisions of the 26th CPSU Congress, also presupposes a further strengthening of contacts between industry and trade. It is essential to more closely link production with consumption. And this is possible on the basis of developing and strengthening the intersectorial long-term ties.

At the same time a study of the state of development of the DLTET between the industrial enterprises and trade organizations of Kiev has shown that such ties are not only not being strengthened but are even declining in comparison with the previous five-year plans precisely in the area of consumer goods production. Individual major department and specialized stores in Kiev have short-term direct ties with individual factories for a volume of product deliveries that does not exceed 1 percent of the total volume of commodity deliveries to the store. Here undoubtedly there are great reserves for the development and strengthening of the DLTET. But the main reserve is to be found, in our opinion, in developing direct ties with the oblast wholesale firms which purchase the basic bulk of the products. There is an opinion that these wholesale elements in the trade network, without directly contacting the purchaser

and moreover not being provided with the corresponding material incentives, are not interested in quickly responding to changes in consumer demand. This notion does not correspond to reality. The oblast trade firms possess highly skilled specialists who show a responsible attitude toward the questions of supplying the retail trade organizations with the products needed by the consumer. But with the still existing system of selling consumer goods by industry and the purchasing of them by the wholesalers, little depends upon them. Up to the present the "meeting" of the industrial enterprises and trade organizations occurs after both sides receive and accept to carry out the funds set by the superior bodies for the sale (purchase) of articles in a group assortment. Naturally, such conditions impede the possibility of actively influencing product assortment by the trade organizations.

Along with creating conditions to ensure such an effect, it is essential to strengthen the responsibility of the trade organizations for correctly determining the orders submitted to industry and for promptly bringing the commodity to the consumer. Certainly, in drawing up an order, trade is often still held prisoner by old notions of the nature and structure of assortment demand and does not sufficiently study changes in style. As a result the order does not always reflect the elements which correspond to these changes. If one also considers the restrictions on raw materials and the production capacity of industry, the excessive length and "multiple tiers" involved in coordinating the new types of products and their elements, it becomes obvious how much must be changed in order to ensure a complete matching of production to consumer demand.

The wholesale and retail fairs must play an essential role in achieving the shifts required by the consumer in the assortment program of consumer goods production. Great hopes have been placed on them precisely as an instrument for the influence of demand on production and as a method for detailing the consolidated, group assortment. The fairs carry out this last role. But due to the fact that the load factor on industrial capacity has been achieved for an assortment established prior to the holding of the fair, due to the raw material restrictions and as a result of all of this, the preliminary distribution of the allocations, the wholesale-retail fairs still basically represent a method for the legal assigning of the allocations.

The territorial specialized wholesale and retail firms at present possess a large amount of information about demand, including the unmet, about the products produced contrary to demand and so forth. For this reason they can promptly influence a change in proportions within the individual types of production as well as an increase in capacity needed to satisfy future demand. Under such conditions, there is an extremely great increase in the role played by the service for studying and forecasting demand both in the wholesale-retail territorial levels as well as in the industrial associations. The importance of the assortment offices in the trade network is also increased.

With the fuller satisfying of consumer demand, gradually conditions will be created for the growing together of the production enterprises and associations with the trade organizations to form trade-industrial complexes. The presently existing proposals to create such complexes are, in our opinion, premature. Trade still is the fully empowered representative of the interests of the immediate purchasers.

As was shown by the surveys carried out, in practice the DLTET still operate as a form for the movement of documents and the commodity. As a rule, the partners do

not draw up fully coordinated plans for long-term cooperation, a system of operational information is not introduced on changes in demand for the consumer and production conditions for the product's manufacturer, and contracts are not concluded on a socialist competition between related partners. The existing "Methodological Recommendations on Organizing Cooperation Between Production Associations (Combines) and Enterprises Under DLTET," in the first place, do not fully reflect the present-day conditions for the development of such ties and the economic situation as a whole, and for this reason, in the second place, are virtually unused by the production associations and enterprises. Formalism reduces the effectiveness of the direct long-term ties. The effect would be significantly greater if the accumulated orders would become a real production program. For this there must be control over the development and improvement of the DLTET and the prevention of possible deviations from their essence. It is essential to constantly monitor the degree to which the DLTET orders are reflected in the production program and to inform consumers involved in DLTET with manufacturers about the internal quarterly schedules for the production and dispatch of products. The next economic condition for strengthening the effectiveness of the DLTET is related to the incorporating of changes in the production planning procedures under the conditions of the direct ties. Although at present, the operations of the production enterprises and associations are assessed considering the fulfillment of the delivery plan, that is, according to the volume of sold product in the enterprise's wholesale prices adopted in the plan (considering the fulfillment of delivery obligations), the delivery plan has still not become an indicator having legal force. This plan is an internal working document for the enterprise marketing section.

In principle the plan indicators and the assessments of the economic activities of an enterprise or association need not fully coincide. But in the given specific instance their noncoinciding involves the imperfection of product output planning. The methods for forming the planned volume of saleable product considering the fulfillment of the delivery obligations and the delivery plan itself differ. While the former indicator is calculated on the basis of the level achieved in the previous year and adjusted for the planned increments in profit and other financial indicators, the latter (the delivery plan) is drawn up on a basis of consumer demand. At present, many economists have emphasized that the enterprise plans for product sales and deliveries are not reciprocally balanced. For this reason it is no accident that many Ukrainian industrial enterprises in 1980 did not fulfill the product sales plan considering the delivery obligations. Such imbalance is in addition a prerequisite for distorting the essence of the DLTET. Certainly the orders formed on the basis of the DLTET so not always or without fail assume the form of a delivery plan and do not lie at the basis of the assortment production program. This program is just oriented at the contractual assortment but is approved in accord with the product sales plan in cost terms.

Obviously the effectiveness of the DLTET and the balancing of the production plans with specific demand on the enterprise or association level would be significantly increased if the indicators approved for the enterprises would include an indicator for the product delivery volume calculated in precise accord with the concluded contracts and orders.

In the process of strengthening the direct long-term ties, relationships have developed between the orderer of the product and its manufacturer. Even now, in a

number of instances using the client's money and materials, additional processing and finishing of materials and articles are carried out directly in their manufacture. With the ubiquitous development of the DLTET, the manufacturing enterprises should have reserves of production capacity in order to employ them in the aim of producing products fully conforming to customer needs. To a certain degree this question is resolved using the reserves formed on various levels in accord with the instructions of the CPSU Central Committee and the USSR Council of Ministers on further improving the economic mechanism. However, the role of the economic partners themselves should be increased in seeking out opportunities for fully satisfying the needs of production and the public for specific types of products.

Ensuring the proper effectiveness of the DLTET is directly related to their stabilization and eliminating the grounds for possible instability, that is, the systematic adjustment of the plans. Here of the greatest importance is the carrying out of the general concept of the 26th Party Congress for a reliable, realistic and taut plan which excludes the aspect of adjustment.

It is essential to more widely use the positive experience existing, in particular, in Ukrglavkhim in fully converting all or a majority of types of supplied and consumed materials to the DLTET. Up to now, as a rule, only individual types of articles and materials have been converted to the DLTET.

The prompt protracted assigning of partners to one another is an important condition for achieving stability and proper effectiveness of the DLTET. At present, the enterprises often are assigned for product deliveries to "long-term" economic ties with manufacturers for just a year. At the same time these enterprises are required to conclude contracts also for 5 years! Such "scissors" must be fully eliminated.

The decree of the CPSU Central Committee and the USSR Council of Ministers on improving the management mechanism envisages the conversion to DLTET and the concluding of 5-year contracts also between the industrial enterprises and associations and the transport organizations. In practical terms, 5-year contracts with transport organizations are not concluded in the Ukrainian Gosstab. Everywhere the contracts are concluded for a year, they are not extended and are redrawn in each following year.

Eliminating the designated shortcomings in the organization of the DLTET and in ensuring a balancing of production with demand involves the consistent carrying out of the decisions of the 26th CPSU Congress on increasing the role here of the industrial ministries, the associations and enterprises, the material and technical supply bodies and the transport organizations on a basis of dependable long-term partnership, outside of which it is hard to implement the major state programs under the conditions of scientific and technical progress.

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