

**SOCIALIST  
PLANNING:  
SOME PROBLEMS**

by  
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### *Author's Note to the Reader*

Although it is not strictly speaking a sequel, this short study can be regarded, perhaps, as supplementary to an earlier booklet in the series, *Argument on Socialism*, since it follows up certain issues that were touched upon but not developed there: issues that in the last few years have come to the forefront of discussion. Since these questions concern the accumulated experience of running a socialist economy in varying and changing conditions, it is almost unavoidable that their discussion should involve citation of a good deal of factual detail. This applies particularly to Chapter 3 below, and also to Chapters 2 and 4 which attempt to summarise what has happened as regards planning and administration in European socialist countries before the war and since. A reader impatient of too much detail may be advised to skip if he can the particular examples and illustrations and pass on to the generalisations to which they are preliminary. While losing something of concreteness by so doing, he should be able (one hopes) still to see the general shape of the problems discussed and the purport of the recorded changes. One should add that comment and discussion have advisedly been confined to the experience of *European* socialist countries.

CAMBRIDGE, MAY 1970

## 1. PLANNING *versus* FREE MARKET

Planning is a word on everyone's lips nowadays, even in capitalist countries; and one could say that there is planning *and* planning, as well as some people perhaps "more planned against than planning" (to repeat Barbara Wootton's witticism of some decades ago). Economic planning is, of course, a technical business, and one cannot talk about it seriously without touching on technicalities at all (although in what follows we shall try to reduce these to a minimum). What is more important, however, and for most people more interesting, is the economic content and object of the planning and the problems associated with achieving this or that aim. Moreover, since human beings and human activity are involved in the carrying out of any plan, the socio-political aspects of these problems must not (and will not) be ignored. In a socialist economy, indeed, the structure and methods of planning are most closely related to (are even part of) what Marx called the 'social relations of production'; affecting as they do the way in which workers in production are related to one another and to the system of production as a whole. This is something to which we shall return in the final chapter.

As the market mechanism has been characteristic of the capitalist system (although not exclusively so), so planning of some kind is, of course, the characteristic mechanism of a socialist system. Indeed, for fairly obvious reasons a socialist economy (by which I mean one in which the basic means of production, the land, the factories and the technical equipment therein are socially owned in some form) must necessarily be planned; since, if production is owned and operated by society as a whole, it must be coordinated and steered by some organ representing society as a whole, otherwise it will lack any mode of articulation and guidance. When under capitalism the

means of production are privately owned, whether by individual capitalists or groups of capitalists as companies or firms, then indeed productive units are responsible to no one but themselves—each does what he thinks will be to his maximum advantage as and where he thinks fit. This is why it has been called ‘anarchy of production’. The State may (and of course does) set limits to what firms can do off their own bat (what is sometimes egregiously called ‘holding the ring for competition to work fairly’). In modern times in some countries it has even set up so-called ‘planning bodies’ to try to give order and coordination to this ‘anarchy’ and to steer the system in certain directions. Their power to do so, however, is inevitably limited by the fact that individual firms are autonomous both in legal form and in practice, and by right of ownership are free to do or not to do what they deem fit. Hence they can be coaxed or prodded to do or not to do this or that by various inducements or penalties, or be persuaded to adopt certain courses of action in unison by voluntary agreement. This may at times be important because there are some things an individual will do if he is sure that everyone else is going to do so, but not otherwise. But if firms are reluctant to heed the directives of the State and its control organs or stubborn and recalcitrant about doing what is indicated or directed, nothing can make them (nothing at any rate short of a pretty fat bribe or else a threat of ‘take over’ by the State—in other words, of socialising them). Moreover, it is a familiar fact that when we speak of the firm to-day, we are faced more often than not with something enormously different from a century or half a century ago: with the giant company or combine of modern monopoly capitalism stretching across national frontiers, wielding immense power capable of dictating to political bodies as well as to smaller firms; so that it is often difficult, ‘twixt State and large company, to tell whether dog wags tail or tail wags dog.

To speak of ‘anarchy of production’ does not mean that there is *no* coordinating mechanism, even if this mechanism is greatly distorted to-day by the presence of powerful monopolies. Each firm produces for the market and is accordingly

influenced by what happens on the market—by the volume of sales and by price-movements on the particular market that is relevant for the firm in question. Hence there comes about some kind of coordination of what different firms do through the mechanism of the market; and this is what Marxists have meant by speaking of Capitalism as being a system of commodity-production (in the sense of production of things for the market) and of its being ruled by economic ‘laws’ of such commodity-production (or ‘laws of the market’). It would be wrong to suppose, however, either that commodity-production (or market-relations) is characteristic *only* of Capitalism, or that this is sufficient to constitute a system as Capitalism wherever market-relations are found. Capitalism (according to the well-known aphorism of Lenin) is commodity-production where *labour-power itself* has become a commodity (through the historical formation of a proletariat which sells its own labour-power on the market). On the other hand, communities of small producers (*e.g.* peasant communities), lacking either a developed proletariat or a class of capitalist employers, have been characterised by production for the market. Moreover, for reasons that will be developed later, socialist societies will also be characterised in some degree, and in varying degrees, by the existence of markets and production for the market; the difference here being that there is no ‘automatic’ market mechanism, markets being incidental to, or adjuncts of, a planning mechanism and playing the rôle generally of servant not master. To some extent, at least, one could describe it as giving additional eyes and ears to plan and planners—as a medium of registering, generalising and transmitting information (*e.g.* about current demand) in a manageable form.

What the main functions of planning in a socialist economy will be is fairly easy to see, as well as the type of situation in which its advantages over any alternative economic mechanism will be most marked. In short, this will be in working out the strategy of economic development as a coordinated whole over a certain period ahead: a strategy conceived with due regard

for what is in the social interest and for various (possibly conflicting) social objectives. In addition to the working out of a strategy, there will be need, of course, for steering its carrying-out, so as to ensure that development of the various aspects and parts of the economic system shall be appropriately geared together, in order to complement one another instead of getting out of adjustment and causing tension and hitches.

This is something that the market mechanism *per se* does not do (for reasons that were explained in *Argument on Socialism*, pages 4-7, and will not be repeated here). For example, it is important that a balance should be achieved between the money-incomes paid out in wages, salaries, pensions, etc., and the flow of consumers' goods into the shops (together with services) in approximately the assortment and quantity that people are likely to demand at existing prices. Otherwise there is likely to be disruption of the price-level (of a kind that has become familiar in many countries recently) or else the social inconvenience and disruption involved in extensive shop-shortages and queues. Even more important from a production-standpoint, if a certain rate of growth is expected, is that the industries producing things like constructional steel, building materials and the requisite types of technical equipment, should be capable of turning out these things in sufficient quantities to sustain this rate of growth and construction, and moreover should themselves be expanding their productive capacity in an appropriate degree so that their own output should *continue* over the period to be adequate to the needs of growth in the economy at large. This relation between changing outputs and the various inputs needed to make these outputs possible is a complex business as modern input-output analysis (with its tables, or 'matrices', of inputs and outputs) has shown; and for perfect harmony to characterise any process of development a quite complicated balance or 'fit' of a large number of constituent items is required. Evidently failure to achieve the required fit can result in retardation of the process of growth and even in bringing it to a halt.

This kind of 'dynamic equilibrium', as economists term it,

may be difficult (as we shall see) for any planning body, using sophisticated methods of input-output analysis and of computation, to achieve at all perfectly. But it is something which an automatic market-mechanism is peculiarly ill-fitted to achieve, and in many types of situation such a balance becomes impossible. In so far as price-changes reflect deficiencies or the reverse and individual producers react appropriately to price-changes, there will be a tendency towards balance between constituent sectors or parts of the system; price-changes acting as a kind of signalling-apparatus of supply-demand relationships. But, firstly, there may be serious time-lags in adjustment alike of prices themselves and of production to prices. Secondly, the nature of producers' reactions will depend on their expectations or guesses as to what is going to happen next (*e.g.* whether prices will go on rising, or having risen will now stay put or revert to some previous level). Thirdly, their reactions will depend on how each producer guesses that *other* producers will react. Individual firms will have no knowledge (in most cases at least) of what other firms are likely to do or of the larger picture: they will have only their own 'hunches' to go upon, strongly influenced perhaps by current rumour and gossip and the prevailing business mood. In particular, when the price of something starts rising (*e.g.* in face of increased demand or shortage), a common reaction all-round is to increase the holding of stocks of the thing in question (and conversely when price falls). There will thus be *over*-response to the signalling; the result will be highly *destabilising*, not the reverse; and disruptive cumulative movements of expansion or of contraction will tend to develop.

This is why Capitalism, although it has been responsible for considerable growth in its time, has tended to move in fits and starts, with alternating periods of expansion and contraction. Growth, in other words, has tended to be short-lived (unless stimulated by special boost-factors like war-expenditures by the State, capital export and opening-up of new territory or technical revolution); being quickly arrested by the kind of internal maladjustments in the structure of production of which we have

spoken. Many countries, particularly the poorest and least developed, have even been caught in the mire of stagnation, if not indefinitely, for considerable periods of time.

To-date the planned economies have had a striking record of sustained growth. Leaving aside Soviet growth in the pre-war twelve years, which was remarkable, the average annual industrial growth-rate in the U.S.S.R. over the period 1948 to 1960 exceeded 10 per cent according to estimates of the European Economic Commission of the United Nations. In general other socialist countries showed comparable rates of growth (according to the *U.N. World Economic Survey 1961*, including China, "between 1950 and 1959 industrial production in the centrally planned economies increased at an average rate of 13 per cent per annum"). In the first half of the '60's, as we shall see, in the Soviet Union and other socialist countries in Eastern Europe, there was a slackening of growth-rates, followed by a recovery in the second half of the decade and a resumption in most cases of higher growth-rates (although not quite those of the '50's).

What has been said indicates that centralised planning is likely to show greatest superiority as an economic mechanism when for any reason large structural changes are occurring in a country's productive system and where economic growth has priority as a social objective. These two cases will probably be coincident since growth itself involves large structural shifts (for example, a shift of resources into the group of industries that produce productive equipment, as well as a large intake of new labour and/or rapid technical innovation and change). Moreover, since a process of growth can so easily break down and peter out if a proper balance is not kept between its constituent parts, centralised control and steering is necessary to maintain the momentum of growth. (From a political angle, centralisation may be needed also to maintain popular morale and to achieve the requisite *élan* for the human effort and strivings involved—but that is rather outside our immediate, more restricted context). This necessity for centralised methods will probably be the greater, the lower the level of social and

economic development from which the growth-process in question starts.

For reasons, again, which should emerge from what is said later, centralised control of the economy is likely to be more successful—the problems involved in it will be both fewer and simpler—when the situation is such as to make the policy-objectives relatively simple and when the economic system is at a stage, or of a pattern, that renders its structure relatively simple rather than complex. If policy-objectives are few and are easily arranged in numerical order, a priority-list of tasks can readily be drawn up and resources be the more easily allocated by working down the priority-list—something which cannot be done in this simple fashion in the degree that objectives grow more complex and overlap or conflict. If the productive structure is fairly simple, the relations between sectors and industries that have to be adjusted and arranged are likely to be fewer as well as simpler in the sense of there being a predominance of one-way sequences, with relatively few criss-cross relationships or so-called 'feed-back' effects. Both of these conditions can be said to have fitted, more or less, the state of the Soviet economy as it was in the 1920's and 1930's; and probably applies to many underdeveloped countries in the world today.\* Yet perhaps not always so; since an important qualification is that where productive units are small (*e.g.* small farms in agriculture or petty workshop or handicraft industry) things may be much less easy to control and plan centrally than when productive units are large-scale.

\* One writer has said: "If you have a large backward country whose leaders want to increase sharply the rate of investment, and the main bottlenecks are the capacity of the investment goods sector (the Feldman constraint) and the marketable surplus in agriculture (the Preobrazhensky constraint), then the price-mechanism is a lot less helpful. It was to deal with problems of this type that the traditional Soviet economic system was created." (Michael Ellman, *Economic Reform in the Soviet Union* (P.E.P. Broadsheet No. 509), 1969, p. 325).

## 2. THE CENTRALISING PERIOD IN SOVIET PLANNING

Reflection will indicate, I think, that there are fairly strait limits to the number of decisions that any planning body can take and hence to the number of specific things that it can control. This is partly a matter of time-table—the number of decisions that can be worked out and taken in a given time is limited; and if the planning time-table starts too early in advance of the date to which the plan applies it will lack certain important data that are necessary for plans to be realistic, e.g. about actual economic performance and results in the current year preceding that for which the plan is being made.\* It is partly a matter of relevant information (e.g. about productive possibilities, costs and the inputs involved in the expansion of outputs by a given amount): what is available at the centre in accessible form, and can be processed even with the aid of computers, and requisite calculations made thereon with the time and personnel available, is restricted; while collection of new information takes thought and time. One of the crucial techniques characteristic of Soviet planning of which more will be said in a moment has been the balance-method (the construction of equations or balances between available outputs and the needs for them as inputs). This system of balances has never, in practice, covered more than a proportion of all the products concerned (and similarly with the supply-allocation

\* Someone at this point may retort: what is to stop the planning organ and its personnel from being enlarged, to cope with more calculation and decision-taking? Although up to a point devolution of tasks may, of course, be an economy, such enlargement must involve a multiplication of planning groups and departments, and hence only transfers the problem of co-ordination and control to a higher level *within* the planning body. Analogous limits apply to what this higher level can handle. The same is true of devolution of some planning tasks to subordinate organs such as planning bureaux within industrial Ministries.

system of which we shall presently speak). One can scarcely imagine it being otherwise. It is obvious that a considerable number of decisions must inevitably be taken at some lower level, closer to actual production, if only decisions concerning the detailed implementation of a given plan and how to suit the latter to unforeseen contingencies (since, again, even the wisest and most efficient and best-equipped planners cannot foresee and allow for every possible contingency). Even communication between higher and lower levels itself takes time.

In recognition of this fact, Soviet planning at a quite early stage (soon after the so-called 'war communism' of the civil war years had been scrapped and a transition made to the so-called New Economic Policy, or NEP) proceeded to organise industry into self-managing units of varying size (the so-called 'Trusts' of that period) under a system known under the generic title of *Khozraschot* (inadequately translated as 'cost accounting'; more fully rendered perhaps as 'commercial accountancy'). Under this system industrial managements were granted financial and commercial autonomy on the basis of their own balance-sheets: *i.e.*, they had to account for all their transactions and to balance their receipts against expenditures, subject to the payment of certain obligations to the State, including a substantial proportion of any profit they might earn (the remainder forming a reserve against future contingencies or for improvement of production). Within the limits of directives and targets handed down to them, they had discretion as to what to produce and how much, and were free to enter into contracts with other bodies for sale and delivery of their output and for purchase and supply of various materials, fuels and components as inputs, as also for the employment of staff and personnel. The plant and equipment at their disposal was, of course, the property of the State, which could appoint and dismiss the management. Only its working capital (which could be supplemented by bank-credit) could be said to 'belong' to the Trust or enterprise (e.g. could be distrained upon for debt, or run down in discharge of its financial obligations).



Thus during this early period of NEP the system in operation was a fairly decentralised one, in the sense that detailed operational decisions about production were taken at the level of individual industrial managements or enterprises, while supply-relations between these bodies were usually direct and on their own initiative (marketing of final consumers' goods was commonly done through the cooperatives). The extent of control from above fluctuated; and there was some oscillation between close regulation by means of detailed directions and orders and greater latitude. There were periodic complaints of an excess of bureaucratic interference in detail which should properly be the province of industrial managements—a disease of petty interference for which a special name was invented (*glavkism*, from the name of the industrial committees or departments responsible for directing industrial enterprises within a certain branch of industry). Much use was made at the time of a distinction, in principle, between “general direction and control (steering)”, which was the province of the higher bodies, and “detailed operation and execution” of industrial policy and of general objectives; this latter function belonging to industrial enterprises and their managements on the basis of the above-mentioned *khozraschot*. This principle, together with *khozraschot*, was reaffirmed at the start of the Five Year Plans and continued to reign throughout the period of which we are coming on to speak, despite qualifications and encroaching restriction of it in practice.

With the launching of the First Five Year Plan at the end of the decade the tide was to turn in the direction of greater centralisation—slowly at first, but then with gathering pace as the decade of the '30's advanced, and the Second Five Year Plan followed on the heels of the First and after it the (unfinished) Third. This was the period of intensive drive to industrialise the country and to transfer agriculture from small-scale, primitive, backward peasant farming to a basis of cooperative or collective farming units, relatively large-scale and mechanised so far as the supply of tractors and combine-

harvesters from newly-created industry made possible. It has been called the period of the ‘big push’ or the ‘great leap’ (to use the Chinese term) into a modern industrial country. Moreover, this decade or dozen years of great sacrifices and heroic endeavour advanced under the growing shadows of war; so that an industrialisation drive had to be combined with an armaments drive to build up a war industry. Accordingly, the system of planning and administration in this period was to assume much of the character of a war economy in peace-time—and to become indeed a war economy after the summer of 1941.

Centralisation in this period took the form of an increasing amount of detail being written into the plans (*i.e.* the operative annual plans), which had come by now to include specific tasks for each enterprise and not merely targets covering whole branches of industry. The planning mechanism and planning methods had seen considerable development since the early and middle '20's. Whereas to begin with the planning commission (Gosplan) had issued annually general targets or guide-lines (in the shape of so-called ‘Control Figures’) to influence the Commissariats and other economic departments of State in drawing up their own programmes, there were now operationally binding annual plans, broken down in considerable detail to the level of individual industrial enterprises. These came to include not only output-targets (in quantity or value) for finished output, but also such things as ‘indices’ of cost-reduction and increase in labour productivity, provisions about credit-advances and financing (*e.g.* of plant-reconstruction or extension), ceiling-levels on employment and total wage-bill. When hitches occurred, the tendency was to make stipulations still more detailed: for example, if output-targets were fulfilled in overall dimensions, but at the expense of certain ‘lines’ or ‘models’ that were in short-supply, details about so-called ‘output-assortment’ were added in the form of minimum quantities of this or that item in short-supply. Moreover, as the pace and intensity of construction resulted in a shortage of constructional materials, and later of various raw materials and

fuels, metals and machine-tools, centralised rationing and allocation of supplies replaced direct ('decentralised') contractual arrangements between enterprises. Thus developed the widespread system of centralised allocation of all so-called 'funded goods', which by the early '50's had come to include in all something like 10,000 items (or about double the number of separate products for which targets were regularly included in the annual plan). Goods allocated in this way fell into two main categories: those for which the main allocation-quotas were worked out at the topmost, all-Union level, and those allocated at the level of Ministries or Republics. In most cases the breakdown of quotas was made as far as the individual enterprise; so that the latter was apt to be told both how much it was getting and from where; and all that was left to it to fix contractually with the supplying enterprise was matters such as delivery-dates, precise grade or quality and the like.

All this meant that the operational discretion and autonomy of individual enterprises were increasingly hemmed in and restricted. In addition to targets and indices listed in the annual plans, Ministries and their more specialised sub-departments (*glavki*) often made a habit of issuing *ad hoc* directives or administrative orders to the managements of enterprises that fell within their control, whether or not this infringed the latter's legitimate sphere of operational discretion. This often seemed the quickest way of meeting particular contingencies. In war-time and in the period of post-war reconstruction such detailed control from above tended to increase rather than diminish, even if difficulties of communication and disorganisation attendant on the evacuation eastward of whole plants and enterprises may of necessity have extended the responsibility of individual managements, who faced unprecedented difficulties that without ingenious improvisation would have lacked solution.

Thus by the beginning of the 1950's a highly centralised and complex system of planning and administration had grown up in the Soviet Union: a system that involved some serious difficulties and problems, as we shall see, despite its undoubted

advantages and great achievements in the circumstances of the preceding period, and a system that was to exhibit considerable built-in inertia, resistant to change. Moreover, in the post-war years this system, with its associated planning methods and policies, was extended (often with uncritical, even slavish, adaptation) to the other socialist countries of Eastern Europe, which were much more economically advanced (notably East Germany and Czechoslovakia) than the Soviet Union had been when the First Five Year Plan was launched. It is scarcely surprising that the difficulties associated with this centralised—looking back on it one could say gravely *over-centralised*—system should have shown themselves most acutely in some of these countries.

It would be wrong to think, however, of this traditional planning system as a hasty and patchwork improvisation, even if it had grown under the compulsive pressures of war and semi-war economy. In many respects it was a highly finished and articulated system, much of it deserving to retain a place in any system of planning; although, when it came to detailed implementation, it is quite true that a number of its methods represented rough-and-ready and necessarily unrefined approximations. To illustrate this, we should perhaps fill in the picture with a summary description of how planning of the traditional type, as developed in this period, actually worked.

The first stage in plan-making (*i.e.* as regards the operative annual plan) usually started in the spring or early summer of the year preceding that to which the plan was to apply. This first stage took the form of the construction by the planning commission (Gosplan) of a set of fairly general provisional targets (in the shape of what were still called by the name of 'control figures'), deriving these largely from the previous year's experience (on the basis of preliminary 'material balances', of which more anon), and embodying in them what can be called the political or policy-elements of the plan-framework. These provisional plan-estimates would then be passed down to the various industrial administrations of the Ministries, which supplemented them by working out more detailed figures for the

enterprises and plants within their respective spheres. Individual enterprises were then called upon to pass their own opinion on these figures and on the basis of the suggested output-targets to submit their own estimates (*zaiavka*, or indent) of their supply-requirements, with regard to materials and components, fuel and power, labour and possibly additional equipment needed for the proposed output-targets to be met. Basically, of course, this represented a highly technical physical costing of an output-programme, affording the crucial coefficients on which any input-output table, with its attendant calculations, must necessarily rest. But it is also clear that in this counter-estimating and indenting there resided a considerable element of 'play', in the sense that there was scope for negotiation and 'bargaining' between lower and higher levels and this could be a not-unimportant factor in determining the outcome.

Having travelled back to top levels, the draft plan would then be submitted to various kinds of reconsideration and recalculation in the attempt to secure cohesion and 'fit' among its constituent sections; and in these final stages there would probably be a good deal of cross-consultation and adjustment between Gosplan and the industries in the process of mutually adapting revised targets to revised supply-availabilities and requirements. The time-table, however, scarcely allowed further consultation with enterprises themselves (save in exceptional cases); and the latter had no guarantee that they would in fact receive allocations of the supplies they had asked for in their original indent (they might be granted substitutes, or if the total supplies they had asked for perhaps in a different assortment). Indeed, in these later stages of planning time available is likely to be the greatest limiting factor upon the amount of calculation and mutual consultation and adjustment that is possible if the final plan is to emerge in time for industrial enterprises to base their own production-programmes for the coming year upon it. (There have been occasions in the past when the plan did not take final shape at the plant level until as late as March or April of the year to which the plan referred.)

On this an American writer on Soviet management problems has made the following comment: "Planning cannot be begun too early or its assumptions as to the state of the economy at the beginning of the planning period will be seriously in error. It cannot last too long or the plan will not be ready in time for the period it is intended to govern. Many of the compromises and difficulties in Soviet planning can be described in terms of the conflict between the pressure for speed of operation through 'planning from above', and the truer expression of actual conditions which is achieved by 'planning from below'." (David Granick, *Management of the Industrial Firm in the Soviet Union*, New York 1954, p. 65.)

Once, however, the final plan for the year has been approved by the Economic Council of the Council of Ministers, it has operative force for the coming period, and is binding on enterprises. It can no longer be appealed against; although there are specific provisions for 'revisions' to be made in course of fulfilment, if a sufficient case can be made out for them. This provision affords at least some element of flexibility in the carrying out of the plan. To the enterprise this final plan comes down in the shape of a series of so-called 'limits' and indicators; and on the basis of these it is customary for the enterprise to work out in fuller detail what is called its 'technical-production-financial plan'; this being commonly broken down to individual workshops or departments, and including a statement of the sources, kinds and delivery-dates of materials and components. Thus it forms the basis of production-programming by quarters and months and even weeks of the year.

These limits and indicators of which we have spoken could cover, at the most centralised period, all or most of the following:

1. Quantity of total output, in terms of physical and/or value units.
2. Specifications about qualities and 'assortment' (although commonly confined to certain 'key' items).
3. Cost-indices, usually in the form of percentage cost-

reduction on a previous level; labour-productivity indices etc.,

4. Capital expenditures.
5. Employment of labour and 'limits' on the wage-bill (often broken down into categories of labour).
6. Supplies of main materials and components, fuel and equipment to be allocated.
7. Financial provisions such as grants of additional working capital, credits and sources of finance to meet new construction or re-equipment of plant.

In all it was quite possible for an enterprise to be assigned as many as 500 targets and indices.

A few words of explanation are, perhaps, necessary about the 'balance method' which plays such an important rôle in plan-making, both in the initial stages of preparing the draft 'control figures' and in the stage of final adjustment. A balance consists of a listing of all the sources of supply of a given product on one side and all the uses for or demands upon that product, on the other; this being based in the main on information supplied by industries and enterprises, and partly upon data from past experience. The question that one can say balances are primarily designed to answer is: when output is increased at any given point (*e.g.* output of steel), by how much will *other* outputs need to be increased also (*e.g.* outputs of coal and ore) to provide more inputs necessitated by increased production of the former? Here one meets those input-output coefficients (quantities of coal and ore to each ton of steel) that are crucial to the deployment and use of any such balancing method and on the precise accuracy of which so much hinges. The difficulty of finding a quick and simple answer is that, when the production of one thing is changed, this may have a whole chain of repercussions, affecting not only the immediate inputs into the production-process in question, but also inputs into those inputs and so on in a whole series or chain. Sometimes, of course, the chain-effect may peter out fairly soon: the output-adjustments needed beyond the first and second round of

effects may be so small as to be safely neglected. But in other cases the repercussions may be much greater and more sustained, as well as more widespread (even being to some extent 'circular'). This is something that can only be allowed for (or, indeed, detected) by using a more complicated input-output table (or matrix) for the full range of products, with the more sophisticated calculations associated with this. In their actual use of the balance-method, Soviet planners have not been accustomed to carry their calculation of effects beyond the stage of what are termed 'first order' and possibly 'second order' linkages or effects; partly because in many cases this was all that mattered,\* but partly also because this was the most that it was practicable to do within the limits of the planning time-table.

A more technical feature that precluded precision in the balancing (and the same difficulty would apply to more sophisticated input-output methods) is concerned with the nature of the information available (the way in which it is compiled) about the crucial input-output coefficients (how much coal and ore *e.g.* is needed to produce a ton of steel). Planners must necessarily deal with product *groups* (*i.e.* individual products aggregated in some degree); and almost inevitably the requisite data will come to the planning body in the form of an *average* (weighted) coefficient—averaged for a number of differently situated enterprises and for a group of heterogeneous (if kindred) products, like motor vehicles, different types of cloth, different styles and sizes of boots and shoes. Much will depend, as regards input-requirements, on how the given output-total is composed with respect to various sub-types of product within the larger group, coming perhaps from diverse enterprises (for example, on whether a motor-total is composed mainly of lorries and buses or mainly of mini-cars). In particular, when adjustments are made in the

\* That the interconnections may for the most part be simpler than is often imagined is suggested by the results of the Soviet 1959 input-output table, which showed that one-eighth (only) of all the products exchanged between industries accounted for as much as 95 per cent of all product-inputs. Cf. the writer's *Soviet Economic Development*, rev. ed. 1965, p. 359n.

output total for a group, the planners are probably not in possession of the original detailed data of input-requirements for the separate items; and even were they to possess these details, they might well lack the time and capacity to re-work their calculations anew, so as to reach a new input-coefficient for the whole category every time the output-plan was revised. The planners have to be satisfied with an approximation based on the average coefficient, constructed according to the original 'weighting' of items. In practice, therefore, the calculation of inputs required by the new output-programme can be no more than *approximately* correct: there will always be a margin of error, large or small.

The method of balances has been spoken of by economists as a method of 'partial equilibrium', in the sense of a series of piecemeal solutions arrived at separately. As such it is an easy and usable device; and where available data lack precision and there is an appreciable amount of 'play' in those crucial technical coefficients, it may reach as good an approximation as can reasonably be expected. But because it does not allow for wider repercussions of an initial change, it may not succeed in reaching a 'general equilibrium' of the whole system (in the sense of a perfect 'fit', with everything consistent with everything else). In other words, it is quite possible for significant shortages, and hence production 'bottlenecks', to remain.

No plan, of course, in its execution can go exactly as was designed and intended, partly because there are difficulties in making it perfectly consistent and realistic, partly because future situations and eventualities cannot be assessed with certainty, but only approximately foreseen (*e.g.* the human factor, technical change and vagaries of the weather). There is need, accordingly, to allow for some flexibility, at least, in the plan in the course of implementation; and this means making provision for revisions in case of need. If such revision is made too easy, then of course, the door is opened to evasion of the plan's provisions, and to non-fulfilment and possible dislocation as a result (what in Soviet *parlance* is called 'loosening plan-discipline'). But if revision is made too difficult, a dangerous

degree of rigidity is created in face of unforeseen contingencies, which can itself cause dislocation and bottlenecks (quite probably causing enterprises to do covertly and illicitly what they cannot do legally.)

One can say that economically speaking flexibility is provided (and can only be) by the holding of reserve stocks at key points in the system. In the period of extreme centralisation, especially immediately before and just after the war, this possibility was strictly limited both by lack of warehouse facilities and by the chronic shortage of supplies in face of almost universal excess demand (encouraged by so-called 'tight planning'—making targets and indices as severe as possible so as to leave nothing to spare; this being justified by the hope that it would keep everyone at lower levels on his toes). Hence this element of flexibility in the system has been more conspicuous by its absence than by its presence (to put it rather mildly). Administratively flexibility is afforded by making provision for an enterprise's plan to be altered with the sanction of higher authority (this means effectively the relevant Ministerial sub-department for that branch of industry), which can issue what is known as 'operational corrections' (to obtain which, of course, the enterprise will have to make a sufficiently convincing case). This may be done, however, not only on the initiative of the enterprise but of higher authority itself, which perhaps discovers a bottleneck in some 'key' product, with the need to cut its consumption by users and to step-up output of it by producers.

In the past period changes in the direction of *over-fulfilment* of the original plan have generally been smiled upon and indeed encouraged by every form of exhortation, and conversely with under-fulfilment. This is not unreasonable, of course, so far as there is slack in the system and overfulfilment means getting more output from *given* resources (including labour); since this represents a bonus to the economy as a whole with nothing on the debit side; while underfulfilment means that someone somewhere has to go short with no possibility of compensation. On the other hand, if overfulfilment means the use of *more*

resources (as to some extent it probably will do in most cases), then there is a debit-item in the shape of an inevitable diversion of resources from elsewhere (*unless* it can come out of reserves deliberately created by the authorities for the purpose or else covertly held by plants and enterprises to cushion difficulties of this kind and give themselves some elbow-room and freedom of manoeuvre). This consideration points to the crucial difficulty of plan-revision in the course of fulfilment: to make changes in supply-arrangements match the needs of changes in output-targets. There can be no guarantee that this will always be done; and it has not been done in practice. Indeed, traditional bias towards 'tight planning' and towards making revisions in an upward rather than a downward direction has tended persistently to exhaust reserves and to create conditions of chronic shortage. To this question we shall return.

### 3. DEFECTS OF CENTRALISATION AND ITS CRITIQUE IN THE '50'S

By the 1950's, when the years of intensive post-war reconstruction were passed, the situation began to show some important and significant differences from what it had been in the pre-war decade. This was also true of the more industrially developed of the newer socialist countries in the post-war period. These differences tended to bring out the weaknesses of the highly centralised system of which we have spoken hitherto and to start discussion around them soon after Stalin's death in 1953. In the middle '50's a good deal began to be talked about the need for decentralisation. But although some attempts in this direction were made (one of them the regional decentralisation of 1957 at Khrushchev's insistence), it was not until the middle '60's that in the Soviet Union and elsewhere any serious attempt was made to give enterprises more latitude and scope and to replace administrative directives and orders with so-called 'economic methods' or market instruments. This is what makes the Economic Reform of 1965 in the Soviet Union a landmark; and the changes it inaugurated were clearly overdue. Yugoslavia, it is true, had decentralised as far back as 1951, following on her political breach with the Soviet Union in 1948. But this had remained an isolated, and elsewhere in Eastern Europe a suspect, case. Decentralisation in her case was not only earliest but as we shall see went furthest, both as regards the autonomy granted to enterprises in producing for the market (reminiscent of Soviet NEP in the '20's) and as regards the institution of elected Workers' Councils in each 'self governing enterprise' (as they were called), empowered to participate in framing industrial policy. Of this we shall say more later on.

First of the differences in the situation to emerge in the

post-war situation was that the structure of Soviet economy in becoming modernised had become much more complex,—at the same time as the attempt to control things had become more meticulous. Whereas in the early '30's the balance-method operated by Gosplan had covered a few hundred products, these had grown by the 1950's to nearly 2000 (including in this figure those handled by the planning commissions of the Union and of the Republics). In all something like 10,000 products or more (as we have said) were covered by the system of central supply-allocations (these accounting for about nine-tenths of total gross output); and more than 5000 products, with their targets and indices, had come to be listed in the annual plan. These, of course, by no means covered all products or product-items. The number of separate industrial enterprises had meanwhile increased very greatly, to a figure of some 40,000 (and although these were more concentrated in size than in this country, over a quarter of them employed a hundred workers or less). Included in the plan for a single enterprise there might be as many as 500 separate 'indices', so detailed had planning become; with the result that enterprises were left hardly any chance "of significantly influencing the content of their own plans" (O. Nekrasov in *Voprosi Ekonomiki*, 1965, No. 11, p. 3). Thus the complexity of decisions to be handled by the planning apparatus had very greatly increased.

Another respect in which the situation had changed, or was in process of changing—and the difference was even more marked in a country like Czechoslovakia or East Germany (D.D.R.)—was that the reserve of labour that had previously existed in the countryside was becoming exhausted. Expansion of Soviet industry in the '30's had very largely taken place on the basis of an expansion in the total number of those industrially employed, most of this representing an influx from the village into the towns and the new industrial centres. During the First Five Year Plan alone industrial employment almost doubled, and by the end of the Second Plan it had increased threefold over 1928. For this reason this has been called the

'extensive' phase of development. While skilled labour was always scarce even in this early period, unskilled labour was relatively plentiful. But by the '50's this was ceasing to be so even as regards unskilled labour—especially in view of huge war losses. The onset of labour-scarcity meant that growth of output had increasingly to come from higher productivity per man in industry, which in turn depended upon more rapid modernisation of plant and equipment and more intensive technical improvement and innovation—this by contrast with a simple multiplication of new factories and the drawing of additional labour into employment to staff them. Technical innovation, as is well known, comes partly from the activity of scientific research institutes—provided that these have sufficiently close links with industry for new ideas and discoveries to be transferred into practical form without too great a time-lag. But it also depends a great deal, perhaps to a major extent, upon initiative and the will to adapt and to experiment at the level of production—in the plant or enterprise itself. If this is lacking, the progress of innovation in productive techniques may be relatively slow.\*

Since the Second World War, successive Five Year Plans have provided for the bulk of the output-increase (some three-quarters) to come from enhanced labour-productivity and only to a minor extent from increased employment. But the targets for increase in labour-productivity have tended to be *under*-fulfilled. Consequently industries, in their striving to carry out the output-targets, have expanded their labour-force to a larger extent than had been planned. For example, from 1956 to 1960 total employment grew by over 10 million, or double

\* So far as the growth-rate is concerned, another factor in the situation will be the proportion of newly-built (or reconstructed) plants to old plants in industry, since the new are likely to be of latest technical type and higher productivity, whereas pre-existing plants will be of older technical type dating from the period of their original construction. For various reasons this proportion is likely to be larger (and hence the increase in average productivity of labour greater) at relatively early stages of industrialization. At any rate, it will be an important cumulative factor in periods of high growth rates.

what had been planned. During the seven-year period 1959–65 productivity rose by 42 per cent instead of the intended 45 to 50 per cent, while the number of workers and employees in the national economy grew by 37 per cent instead of 22 per cent, and the total wage-fund by 68 per cent instead of 54 per cent. Thus there was accumulating evidence of an important problem: that the traditional system was more successful, apparently, in achieving increases in quantity of output than it was in raising productivity per man by means of constant technical innovation—a problem likely to become progressively more important as reserves of new labour were exhausted and shortage of manpower became a crucial bottleneck. In Czechoslovakia it was pointed out that over a ten-year period the annual increase achieved in labour productivity had been steadily falling.

Thirdly, and accompanying this transition from an 'extensive' to a more 'intensive' phase of growth, there was an important shift in the general objectives of planning in the post-war period which rendered its problems different and more complex. The pre-war period, we have said, gave priority of emphasis to growth, and accordingly priority of growth, in turn, to heavy industry (fuel and power, basic metals and machine-making and the like). The existence of clearly-demarcated priority-sectors of industry made the problems of a highly centralised system of planning much easier in one respect, at least, and its difficulties less obtrusive. If there were shortages and failure of supplies to match demands upon them, whether due to faulty estimating or to some producers falling down on their output-targets, the *non*-priority sectors provided an easy cushion, or a reserve *from* which scarce supplies could be diverted for the benefit of the priority-sectors. The latter accordingly could fulfil their objectives—which was what from a policy-standpoint was of key-importance; the former were driven to resort to second-best or third-best substitutes in the way of supplies or to other expedients, and possibly to fall short of their output-targets (as not infrequently happened).

In the '50's, however, with increasing attention to consumers'

goods industries—to expanding Marx's Department 2 at a comparable rate to Department 1 and relaxing the previous priority attaching to the latter—the previous priority-scale was superseded: indeed, the previous clear-cut distinction between priority-sectors and non-priority began to break down and to become increasingly blurred. Now that increasing attention was being devoted to satisfying consumers' demand, while with a rising standard of life more complex needs were coming into the picture (no longer just a few basic necessities), the achievement of a 'balanced' production-programme began to replace a simple priority-rating of tasks as a policy-objective. Economists began to talk about achieving an *optimum* production programme from among those available, whereas formerly they had spoken in terms of concentration and of 'campaigns' to achieve this or that priority-objective. In this new perspective shortages of this or that product which had previously been tolerated involved a serious lack of balance and were accordingly condemned. Since the retail market is a market in the full sense under socialism, it follows that production in Department 2 must always be more concerned with the market and with the peculiarities of individual demand than is Department 1; hence as Department 2 grows in importance, the special problems connected with adaptation of production to individual demand loom larger.

So far as economic results are concerned, a great deal will depend upon the incentives operating at the enterprise-level, since these will influence its achievement of this or that aim in its production-policy. It is one thing to plan the achievement of certain objectives and targets; it is another thing to have these carried out in every particular. When one speaks of incentives that shape action at lower levels, one may or may not be referring to actual bonus schemes affecting the incomes of the managerial staff and/or of the whole personnel of an enterprise. Incentives may take the form of social esteem and in individual cases chances of promotion, or alternatively of dismissal or demotion if things go wrong. In either case an important influence will be exerted by what is regarded as the



main indicator of successful performance, according to which praise or blame is attached to the manager and staff of the enterprise—is it the hitting of certain specific output-targets or is it showing a balance-sheet with something on the credit side?

The growing emphasis on *khozraschot* in the '20's (first applying to the Trusts of the period, as we have seen, and later extended to all enterprises) promoted balance-sheet considerations to pride of place at that period. In 1936 a financial inducement was added in the shape of what was at the time called the Director's Fund (later, on its revival after the war, called the Enterprise Fund), to be financed by payments out of profits. A quite large proportion of what were known as 'above-plan profits' (*i.e.* profit accruing from doing better than the Plan provided) was payable into this Fund; the proportion varying between 20 per cent and 50 per cent in different industries—compared with only a mere 4 to 6 per cent, or even less, of 'planned profit'. The Fund could be spent on purposes beneficial to the enterprise, such as housing for employees (on which a minimum of half the disbursement had to be spent according to the original decree), various welfare amenities and bonuses to the staff. There was a list of 'permitted purposes' on which such expenditures could be made, which included, however, use as an investment fund at the disposal of the enterprise. These expenditures were at the discretion of the Director (acting in consultation with the factory committee of the trade union).

This Fund was hedged about, however, with some fairly strict limits, and its influence as an incentive was never, apparently, very large. Firstly, payments into the Fund were subject to a fairly low ceiling: they were not supposed to exceed 5 per cent of the total wage-bill of the enterprise in question. Secondly, such payments could only be made if the enterprise had fulfilled the main targets of its annual plan. During the years of 'tight' planning the Fund seems to have been largely used by managements as a source of unplanned investments; with the result that other purposes of the Fund

suffered, and consequently its influence as an incentive to all but the management itself. In the course of time a series of other bonuses was added, the combined effect of which was to dwarf the Director's (or Enterprise) Fund as an incentive. These other bonuses were directly attached to various plan-targets, being designed to encourage strict plan-fulfilment. Firstly, there was a bonus for hitting the output-target in quantitative terms. Then were added bonuses for fulfilling various 'qualitative indices' of the plan: the assortment plan or the indices of cost-reduction and for increase in labour-productivity, or sometimes the saving of scarce raw materials, and so forth. Indeed, in Polish industry as late as 1960 as many as 50 so-called 'success indicators' were in use, some of which conflicted with others or at least blunted or eclipsed their influence.\*

Such bonuses could be said, indeed, to have been a logical outcome of detailed and comprehensive planning, constituting a sort of 'prize' for doing what the plan ordered, and thus encouraging what planners were apt to call 'plan discipline'. But experience was to show that a system of bonuses of this kind, geared to particular plan-targets and indices, could have serious distorting effects upon production; and by the middle-50's criticism of the traditional system of detailed control over enterprises from above was beginning to concentrate upon exposing these distorting effects. Distortions cited were various, according to the nature of particular cases.

In the first place, it is fairly obvious that if a premium is placed on fulfilling an output target expressed in terms of a certain quantity (*e.g.* tonnage, length, area, or possibly value),

\* Cf. J. G. Zielinski, *On the Theory of Socialist Planning* (Ibadan and Oxford, 1968), p. 164. As this author points out, there is a tendency for the number of such indices to become inflated, and it becomes "very difficult to eliminate success indicators once introduced", since each becomes "a source of income to a certain managerial group, and the resistance to any effort to eliminate it is very powerful indeed, as Polish experience has clearly shown." Their multiplication also "creates an exceedingly complex information system within the enterprise".

this may encourage this or that distortion in the type of output produced, according to the particular dimension in terms of which the planned target is expressed. Thus if an output target is expressed in weight, this will encourage, say, bedsteads or chandeliers or paper or nails to be made heavy rather than light, and fewer of them, because in this way the weight-target is more easily achieved. (*Vide* the much-quoted cartoon in *Krokodil* of workers in procession carrying aloft one gigantic nail; this being entitled "The Factory Fulfils its Plan"). Hardly surprising, perhaps, that a Soviet Academician should have stated: "Analysis shows that 18–25 per cent more metal is being used per unit of engineering in our country than in some other countries . . . in excessive weight of machines we are losing 9–12 million tons of metal a year" (A. Tselikov in *Pravda*, 13 September 1968). If targets for weaving cloth are expressed in length, it 'pays' to produce narrow cloth of simplest weave. There were cases of a metal works increasing its output of roofing iron by 20 per cent in weight but only 10 per cent in square metres; of a spinning mill concentrating on thick yarn of low count; of a glass works on thick and heavy glass and of the paper industry preferring to produce thick paper—all because their plan-targets were defined in weight. Another example given in *Pravda* in 1958 was of an inventor of an efficient small boiler who could find no factory to touch it—because their output-plans for boilers were expressed in terms of area of heating surface!

Where output was variegated, the only practicable way of defining output-goals was in terms of money-value, and the easiest way of doing so was to use what is known as gross value (arrived at simply by multiplying the output in question by its selling-price—without deduction of any inputs, *e.g.* of raw materials or components). This gave a bias towards so-called 'material-intensive' types of product: products with a high bulk or value of material-inputs coming from outside the enterprise in question. A square yard of woollen cloth, for example, can vary in value as from one to five according to the expensiveness of the material used in making it; and the weav-

ing mill can fulfil its plan more easily if it makes expensive high-grade cloth, since this will raise the ratio of cost-of-material to labour-added to it in the enterprise in question. This bias has been held to have discouraged production of cheaper clothing-lines from inexpensive materials and of tools made of anything but expensive steels (which should have been economised on and used for other purposes). The chronic shortage of spare parts (*e.g.* for lorries or tractors) over many years has been attributed to a similar cause. It was of little advantage to a factory to produce and supply spare-parts alone; since if they were put into a complete lorry or tractor along with a variety of other components purchased from elsewhere, the labour spent on these parts would 'book in' at a much enhanced value for purpose of plan-fulfilment. For this reason as early as 1957 gross value was given up as a basis for awarding bonuses for plan-fulfilment in the Soviet clothing industry (something like 'net value' or 'value added' being substituted): a change which in the following years was extended to most other industries.

One of the most striking instances of this type of distortion was given by the Hungarian economist, Janos Kornai, as far back as 1956. The example was from the leather industry. Since the value of work in progress could be counted in, at its gross value, as part of the output total at the end of any planning period, a few per cent could always be added to reach the planned total by dumping large quantities of raw hides into soaking tanks during the last few days. "The net value added (he wrote) is practically nil, but the material thrown into the dipper instantly assumes a value equal to 75 per cent of that of finished leather for the purposes of reckoning total production." He later on proceeds to say: "It is not, in fact, possible to find a single director or other official concerned with plans who does not know how to conjure up an additional 1 or 2 per cent, when really pushed to do so, in order to secure his premium—and this without any actual infringement of regulations" (J. Kornai, *Overcentralisation in Economic Administration*, trans. John Knapp, Oxford 1959, p. 37 and p. 133).

Secondly, and closely related to what has just been said, emphasis on quantitative fulfilment of an output-target may often conflict with initiative in improving *quality* by introducing new and improved designs. In so far as higher quality or a new design involves additional time or cost in the making, this may be at the expense of a smaller total of output when the latter is measured by some physical dimension (and not in terms of value, with higher qualities valued at a higher price). We have already cited the example of cloth-output measured in terms of length militating against both width and anything but the simplest pattern in the weave. The way in which the quantity-fetish may work at all levels is illustrated by the case of the Rosa Luxemburg knitting mill in Kiev. When it proposed to turn over to a new and improved type of elastic kapron stocking in place of cotton ones, this was forbidden by higher organisations because it would have involved a 13 per cent fall in output-quantity (*Ekono. Gazeta*, September 1967, No. 37). One Commissar, indeed, in pre-war days was actually demoted for tolerating quality-deterioration in the interest of quantity-fulfilment. Similarly with so-called 'assortment'—range of lines, models or styles: if one of these is easier and quicker to turn out than the others, this one will tend to be produced exclusively to the neglect of others; the 'assortment' in consequence will be unduly narrowed, and certain lines, models, styles and sizes will be chronically in short supply if not unobtainable. As regards innovation in productive methods or new products: this, like new designs of an existing product, will cost time and labour in the initial stages, not only in the designing itself but in running off experimental samples in small batches, and possibly a slower production-rate to start with because of unfamiliarity with the new product. In some cases initial re-tooling may be necessary. If a manager is in danger of falling down on his overall target, there is little doubt that he will soft-pedal the experiment and give his designing department a holiday.

A frequent complaint for many years has been that in the final weeks of any planning period there is apt to be a reckless

'storming' (*shturmovshchina*) to fulfil the plan at all costs (part of the cost perhaps being an over-use of equipment as well as excessive overtime).\* As a Soviet works manager once wrote: in these final weeks the 'plant dispatcher' is apt to ask the manager which of two alternative items should be produced in the remaining time; and "if there is a considerable lag from 100 per cent . . . and if the fate of the plan depends on such a choice, there would hardly be anyone who would hesitate. The production of the new product would be left to the following period" (quoted by David Granick, *Management of the Industrial Firm in the U.S.S.R.*, New York 1954, p. 153).

Thirdly, and for parallel reasons, myopic concentration on fulfilment of quantitative targets may cause longer-term efficiency to be sacrificed to getting short-term results. Not only may equipment be overworked and repair and maintenance neglected, but technical progress (as much as novel product-design) may be inhibited because this, again, involves initially an interruption of the production-flow. An example of the blocking of technical improvement is given by the writer whom we have just cited (Granick, *op. cit.*, pp. 109–11), in the case of a ball-bearing plant which at the direction of the Ministry had instituted a special dispatching system, with special dispatching room and staff to ensure better co-ordination between departments and achieve a more even and continuous production-flow throughout the plant. But to change over to improved methods would have involved an initial interruption of current production and have occupied a considerable amount of time of existing personnel; and as a result the new dispatching department was ignored by the management and for three years of its existence had been

\* As early as 1951 the then-Chairman of the Czechoslovak Planning Office (Dolansky) said of this: "This 'storming' is one of the most wasteful and costly ways of meeting the plan. . . . [It] leads to unused equipment and manpower, to unused capacity, to waste of materials, to an increased number of rejects and to an uneconomical increase of wages by overtime pay" (*Plánovane hospodarstvi*, 1951, No. 3–4, pp. 134–5).

powerless to effect any radical change. During the past decade there has been increasing emphasis upon the "serious shortcomings" (Kosygin) in the rate at which scientific ideas were introduced into production and the time-lag between research and development; new products sometimes being already obsolete by the time they were available (See R. Amann, M. J. Berry and R. W. Davies, *Science and Industry in the U.S.S.R.*, Univ. of Birmingham, pp. 398-401, 427-9).

Fourthly, emphasis on target-attainment will place a premium on securing 'soft' or lenient targets and induce managements to bend every effort in the course of the planning process to this end. Accordingly they will be encouraged to conceal potentialities and reserves—moreover, if in their actual performance they surpass the targets allotted to them, to be careful to do so only to a moderate extent, lest this may result in next year's target being advanced to an undesirable degree. Whence the saying that "a wise director fulfils his plan 105 per cent but never 125 per cent". This kind of difficulty, indeed, does not apply only to the old type of quantitative plan-target: it applies to any incentive (whether 'material' or 'moral') that is related to the achievement of a certain target however this be defined. For this reason it has continued to be discussed in recent years; being given more prominence, indeed, in the discussions of the '60's than in those of the previous decade. Another aspect of this bias towards overstating requirements and understating potentialities has been the tendency in the past for enterprises to hold spare capacity of plant and equipment beyond their normal needs (and/or needlessly expensive equipment): a habit that received special encouragement when capital equipment was supplied to industry by interest-free grants from the State Budget.

Reaction on the part of planners to this bias at lower levels towards 'keeping something in reserve' has commonly been in the past to counter it with 'over-tight' planning, in the sense of setting targets and indices more strictly than enterprises had wanted and proposed. In addition to penalising the con-

scientious and encouraging under-statement still further for the future, this 'over-tight' planning created supply-bottlenecks and aggravated the situation of scarcity and 'sellers' market'—a matter to which we shall return. One could, indeed, speak of a constant 'tug-of-war' between lower levels, trying to secure lenient targets and to overstate requirements, and top planning levels trying to overcompensate for this bias by tightening targets and cutting supply-allocations to the bone.

More generally discussion by the end of the '50's had come to concentrate upon criticism, not of this or that particular defect, but of the whole system of overloading central plans (and hence the planning organs) with a mass of detail which could much better be decided—in many cases could *only* be decided with sufficient knowledge and expertise—at lower levels, close to production and to the particular situation to which these detailed decisions applied. As the other side of the picture (seen from below, as it were) was the resulting fettering of the discretion and initiative of the industrial enterprise and dependence on administrative orders and commands to get things done. Liberman was to speak of "petty tutelage" of industrial managements, and to urge that, as regards detailed implementation of production-policy, 'administrative methods' be replaced by more indirect 'economic instruments' of control and steering (e.g. prices, taxes and rental charges, credit-policy and the like). The logical sequel to this was, of course, a larger role for *khozraschot* and for balance-sheet-type incentives at the enterprise level (whether as mere success-criteria or as bonuses to its staff). We have already mentioned the difficulty, under the system of centralised supply-allocation, of matching adjusted plan-targets for enterprises with appropriately adjusted supplies of inputs to make these outputs possible. If procurement of supplies were decentralised so that industrial managements could 'shop around' for what they needed and enter into direct contracts with supplying enterprises, there would be greater flexibility for adjusting supplies obtainable to the special needs of individual producing units. They might also, incidentally, be under less pressure towards vertical

integration to control supplying enterprises as a way of ensuring their supplies, which seems in the past to have been encouraged to an uneconomic extent by defects in the allocation system.\*

\* D. Granick, in *Soviet Metal Fabricating* (Madison, Wisconsin, 1967), claims that in the case of engineering this 'vertical' tendency, as a form of insurance by managers against supply-shortages, successfully overrode the efforts of top planning bodies to achieve 'process-specialization' with its attendant economies.

#### 4. THE TREND TOWARDS DECENTRALISATION

The need for decentralisation began to be generally talked about in the Soviet Union in the middle '50's. The first attempts at this, however, were distinctly half-hearted, and took the form merely of an administrative reshuffle of tasks among different levels of the planning and administrative machinery: for example between the all-Union and the republican planning commissions; reducing the number of targets included in the central plan and leaving more to be covered by special instructions from the various Ministries (what was later characterised as "the fallacious idea that it is possible to solve complicated economic problems by administrative measures"). The ambitious attempt in 1957 at *regional* decentralisation, sponsored by Khrushchev, was aimed at breaking-up the large all-Union Ministries, which had grown to be powerful bureaucratic empires, and transferring their functions of control to a hundred or more regional economic councils. But although the change was carried out under the slogan of 'taking administration closer to production', it contributed but little to the autonomy of industrial enterprises, to which the economic councils of the region now issued the directives that the central Ministries (or their sub-departments for the branch of industry in question) had previously done. The system of central supply-allocation continued virtually unchanged and as inflexible as before (save for a small extension of the category of direct 'decentralised' contacts and supply-contracts mainly in consumer goods industries). Moreover, the regional system, not unnaturally, nurtured a spirit of regional loyalty, not only in development but in the allocation of output of a region's industry; and mainly for this reason the system was terminated eight years later and some of the central Ministries were restored at an all-Union level. About the same time there was

a first attempt at decentralisation (far from successful in its implementation) in Czechoslovakia, whose highly developed industry had particularly suffered from the bureaucratic régime of the '50's, especially as regards technical progress and quality. But the results of this were soon to be engulfed in a quite serious economic crisis (in the second year of the new Third Five Year Plan) and in the ensuing discussion of measures for more sweeping economic reform.

The renewed talk in the '60's of economic reform in the Soviet Union and elsewhere was, indeed, precipitated by a pronounced fall in growth-rates in a number of socialist countries, and particularly in those that were most industrially advanced. In Czechoslovakia the annual rate of increase of labour productivity had been falling for a number of years—a sign presumably of lagging technical progress; and in 1962 its failure to increase in face of acute labour-shortage and an over-ambitious investment programme created a situation in which investment-projects had to be officially frozen, and total output instead of growing actually declined in 1963. In the following year 1964 national income remained lower than it had been three years before; and this despite the very high investments of the four-year period 1959–62. Even in the Soviet Union in the '50's we have seen that there had been a failure of labour productivity to increase as much as had been planned, and for total employment (and hence the total wage-bill) to expand by more than had been provided for. The investment-output ratio, instead of falling as it appears to have done in the '50's, after 1959 had started to rise. The average annual growth-rate of industrial production in the six-year period 1960–65 averaged 8·7 per cent (in 1964 it had fallen to 7·1) compared with about 10·5 per cent in the '50's. Similarly in E. Germany (D.D.R.) and Hungary industrial growth-rates in the four years 1962–5 averaged only 5·8, and 7·3 (compared with 8·3 and 13·5 respectively for 1960). In Poland in 1963 it was little more than a half the annual average of the previous five years. (In the Soviet Union the planned growth-rate for 1970 has fallen again to 7 per cent: whether this is purely temporary or is connected

with a certain 'stalling' of the economic reform remains to be seen).

One rather curious feature of Soviet plan-fulfilment was the tendency from the late '50's onwards (until 1965) for the growth of the consumers' goods sector of industry (Group B) to lag behind what was planned for it; and it later transpired that the proportion of all capital goods production (Group A) devoted to enlarging the consumers' goods sector actually *declined* between 1950 and 1964, falling from 28 per cent of Group A production to only 18 per cent (I. Konnik, *Voprosi Ekonomiki*, 1966, No. 5, p. 28; also M. Bor, *Aims and Methods of Soviet Planning*, p. 99). It was as though some built-in resistance in the structure of the old system served to defeat any easing-off of priorities in favour of the output of consumers' goods, although this latter was the declared aim of planning policy in these years.

Such was the background to the renewed discussion and gathering criticism of 1962 onwards, both in the U.S.S.R. and in other socialist countries, leading to the Soviet Economic Reform of 1965 and to analogous changes in 'economic mechanism' (although these went further) in Czechoslovakia and Hungary in the following years. This discussion is commonly associated with the name of Professor E. Liberman, because an article of his entitled 'Plan, Profit, Premia' played a prominent part in the discussion in *Pravda* in 1962, and again in the reopened discussion of '64. In brief, what the reformers proposed was that the plan for an enterprise should lay down its production total in quite general terms (only); that details of implementing this total should be left to the enterprise to work out on its own, on the basis of direct contacts with consumers (a maximum use being made of such direct links); and that, thirdly, a new 'synthetic index' of enterprise-achievement should be established (to replace the former multiplicity of indices) in the form of balance-sheet net income or profit, and a single incentive fund related thereto be established. The latter was in a sense a resurrection of the Director's Fund of 1936, but without its major limitations: one difference from the 1936 Fund was the proposal that profit should be reckoned as a

ratio to the size of the 'basic and turnover funds' (capital) at the disposal of the enterprise, in order to encourage economy in the use of equipment and to discourage the keeping of reserve capacity which had previously been not uncommon. The Liberman article (9 September 1962) opened by declaring: "It is essential to . . . construct a system of planning and judging the work of enterprises so that they shall have a lively interest in fulfilling the plan-targets to the maximum, in introducing new techniques and high-quality products, in a word in maximum effectiveness of production . . . the proposed system will free central planning from petty tutelage over enterprises, from costly attempts to influence production, not by economic but by administrative measures. The enterprise itself knows best and can discover its potentialities."

The term 'synthetic index' was here used because its object was to simplify the pre-existing system of multiple (and often competing) indices by substituting a single one which would in effect sum up, or synthesise, the others, particularly the 'qualitative' ones mentioned above. Changes in 'net income' manifestly express the combined effects of cost-reduction through greater efficiency, increased output (or at least sales), improved quality and attention to consumers' requirements. The only serious objection to such an index is when the enterprise can exert any appreciable influence upon the price of its product (which it is, of course, very much less likely to do with State fixation of prices than is a corporation or firm in a capitalist economy), or if there are social or side-effects of production that are not registered in the enterprise's balance-sheet. In justification of such an index Liberman wrote: "Our profit, if one starts from the fact that prices correctly express average expenses of production for the branch [of industry], is nothing else than the result of increase in the productivity of social labour concretised in money form. That is why we are able, in basing ourselves on profitability, to encourage real effectiveness of production. But with that said, encouragement is not enrichment. . . ." After the introduction of the new reform, he hailed the principle that "what is of benefit to

society and the State must become of benefit to every enterprise and to every worker in production."

For a year or two there was a period of experimentation when something like the new methods were adopted in certain selected enterprises; including certain clothing enterprises which were left free to fix the details of their production-programme on the basis of orders from retail stores. After a second round of discussion in 1964, which was more outspokenly critical of the old centralised methods than the first one had been, the Economic Reform of September 1965 was introduced in a speech by Kosygin (to the C.C. of the C.P.S.U. of 27th September) and was extended in stages over the major part of Soviet industry during the next three to four years. The new system was embodied in a special Statute of the Socialist Industrial Enterprise approved by the Council of Ministers on 4 October 1965. The first clause of this Statute declared: "The socialist industrial enterprise shall be the basic unit of the national economy in the U.S.S.R. Its operation shall be based on centralised direction combined with economic independence and initiative on the part of the enterprise." The changes were not very radical, considerably less so, as we shall see, than those embodied in the Yugoslav Fundamental Law on Management of State Economic Enterprises of 1951. But in principle they amounted to an appreciable dismantling of the old centralised system that had become traditional and to at least a partial reassertion of earlier *khozraschot*. The main changes were three in number.

Firstly, the enterprise in future was to be subject in its annual plan to two main planned 'indicators'; the first of these being the amount of *marketed* output in value-terms (instead of gross value *produced*). The chief 'limit' to which it was still subject was the ceiling on its total wage-bill. In addition to these there were, of course, stipulations about the amount of various tax-payments into the Budget and other charges, including a new tax-obligation proportioned to the amount of capital funds—both fixed equipment and so-called 'turnover funds' in its possession. The shift from output produced to output adapted sufficiently to market-demand to find customers

was in itself a quite significant change; and the new capital-charge was designed to encourage economy of technical equipment, which we have seen had previously been lacking or at best inadequate. As regards other 'norms' and indices previously stipulated in the plan handed down to the enterprise (including details of output-assortment): these were to be left for the enterprise to determine in future at its own discretion.

Secondly, balance-sheet profit was recognised in principle as the main criterion of enterprise-performance, with a new-type enterprise-incentive fund related to this, to supersede previous bonuses and incentive funds. This new fund, from which among other things bonuses can be paid to workers as well as managerial and technical staff, was to be formed by payments proportioned to the profits shown in the enterprise balance-sheet (more strictly, as it was to work out, as a proportion of the excess of the profit-rate actually realised over the 'planned profit-rate'). Actually there were three new funds put at the disposal of enterprises: an incentive-fund, for provision of bonuses and other expenditures beneficial to the staff of the enterprise; a development fund, to be used by the enterprise management at its discretion for technical re-equipment or expansion; and a social and cultural and housing fund.

Thirdly, it was provided that for the future a substantial proportion of investments were to be financed by bank-credits instead of by direct grants from the Budget. These credits would be repayable and would carry an interest-charge. The intention clearly was that in raising such investments enterprises would have more power of decision than they normally would with so-called 'centralised investments'.

The system of centralised allocation of supplies, however, remained substantially unchanged by the reforms of '65, although the number of things falling within the 'decentralised' category of distribution was somewhat increased. In his September speech introducing the reform Kosygin, indeed, made an incidental reference to its dismantling as a task for the future. He spoke of the need "gradually to shift over to wholesale trade in individual types of material and equipment",

involving "direct ties between producing and consuming enterprises". But this was mentioned rather tentatively as a task for the future. More forcibly a writer in the journal *Voprosi Ekonomiki* spoke of "expansion of direct economic ties between enterprises" as "a decisive condition for decentralisation of the planning of industrial production" and for "creating the most favourable prerequisite for all-round development of the creative initiative of enterprises, for extending their operational independence and introducing full *khovraschot*" (Y. Koldomasov, in *V.E.*, 1965, No. 11, p. 15). Evidently, the autonomy of an enterprise to determine its own production-programme and to introduce new products and new product-designs will be severely restricted *unless* it is able to choose its own sources of supply and to make arrangements with suppliers on a contractual basis. Its hands will be closely tied if it is restricted in advance to certain supplies and to stipulated suppliers. A small measure of flexibility was introduced some two years later by the inauguration of a number of surplus supply-depôts (between four and five hundred in all) to which surplus supplies in excess of requirements could be traded and from which enterprises could obtain needed supplies in excess of their allocation-quota. In a situation of general supply-shortage and a 'sellers' market' the amount of flexibility thereby introduced could hardly have been very great; and until some more extensive dismantling occurs of the old allocation system, enterprise autonomy in practice is likely to be in something of a straightjacket, even if in principle this autonomy is admitted and underlined.

It was in this respect that the reforms proposed in Czechoslovakia and Hungary (and introduced in the latter case in the course of 1968 and '69) went significantly further than in the Soviet Union. In these cases the centralised allocation of supplies was discontinued (or had already for various reasons come to an end), save for a few cases of special scarcity. The relation *between* enterprises, accordingly, was characterised by some degree of market exchange; and the *de facto* autonomy of the enterprise to determine its own short-



term (*i.e.* annual) operational plan was considerably increased. (It should be noted, in order to avoid exaggerating the degree of decentralisation even here, that while the framing of short-term production-programmes fell to the enterprise, these were still supposed to be geared to, and contained within, the longer-term plans drawn up centrally by the planning body or planning office). A Hungarian critique of the former allocation system has declared in no uncertain terms that "the general finding of critical analysis [is] that central allocation is not able to avoid shortages: on the contrary, the system itself stimulated the enterprise to pile up superfluous stocks, and thus in certain respects it contributed to increase shortages". To this it added: "There exist, as a rule, no objective criteria as to which enterprises or industries should be preferred in case of shortages, since, with a multitude of interrelated productive connections it is almost impossible to weigh up the complex effects of any priority." The new system it called one of "trade in production goods" (*Reform of the Economic Mechanism in Hungary*, ed. I. Friss, Budapest 1969, p. 108). The resolution of the C.C. of the Hungarian Workers' Party of 7 May 1966 declared in no uncertain terms that "the development of an active rôle for the market requires that the laborious and bureaucratic system of centralised allocation of materials and products should give place to commercial relations".

Another respect in which the Czech and Hungarian reforms were designed to go further was in introducing a considerable measure of flexibility into the price system. If enterprises are given greater freedom of action, and are to be influenced to a smaller extent by orders from above and by plan-indicators, it stands to reason that their production-decisions (both as regards output-pattern and choice of inputs) will be influenced to a larger extent than before by prices. The whole question of what is a right or wrong, an 'economic' or 'uneconomic' set of relative prices (*e.g.* of different, and substitute, fuels or metals) immediately comes to the fore; since the relation of prices will affect, on the one hand, which of various alternative fuels or metals or ores or machine tools is more economical to use,

and on the other hand what kind of output-assortment it is preferable for an enterprise to produce. Naturally enough, a wholesale revision of the price structure followed the Soviet economic reform of 1965. This brought about substantial price-increases in the case of extractive industries and so-called 'capital-intensive' industries whose products had previously been priced too low (coal, *e.g.*, being raised by 75%, some crude oil prices doubled, metals by some 35 to 40 per cent and heavy industry products as a whole by an average of 11-12 per cent). It was further notable for introducing *in principle* (although this was not rigorously enforced and numerous exceptions were allowed, at any rate for the time-being) into prices a uniform rate of profit of approximately 15 per cent (proportional, *i.e.*, to an industry's capital funds); also in the case of extractive industries rental charges for the use of specially favourable natural resources. In the Hungarian case price reform (of 1968) was considered sufficiently important to be made to *precede* introduction of the 'new economic mechanism'. Here (as also in the original Czech proposals associated with the name of Prof. Ota Šik) provision was made for some decentralisation of price-fixing as well as of output-decisions. Thus prices of goods were divided into three broad categories. In the first centralised price-fixing was to remain as before. In the second provision was made for prices to be varied (*e.g.* in contracting for supplies between enterprises) within defined upper and lower limits. In the case of the third, prices were left free to vary without limit, as 'market prices', determined by the current supply-demand situation. The latter category comprised no more than a quarter or a third of all products, and was to consist of speciality-types and novelties and the less standard types of consumers' goods. But the second and third categories combined, where there was provision for at least some flexibility in contracts, was to cover more than a half (approaching two-thirds) of all products. Like the Soviet price-reform, the Hungarian adopted the principle of "an approach to prices of production (in the Marxian sense)" (*ibid.*, p. 145) by introducing a 5 per cent

charge or tax in proportion to capital funds, and including in price additionally (*i.e.* in establishing 'initial' or 'starting' prices) an average rate of profit of between 6 and 7 per cent in relation to the capital employed in the branch of industry in question.

Even before 1965 (the year of the Soviet reform) somewhat analogous changes, though more cautious in extent, had been introduced in East Germany (D.D.R.): changes that were then followed fairly closely by Poland a year or two later. In particular, profitability was adopted as the basis of managerial bonuses, and a tax or charge proportioned to capital funds was introduced as in the Soviet Union. In these cases, however, the effect of the changes was less to increase the autonomy of enterprises, whose position and functioning remained little affected, than to enhance the rôle of new bodies called 'associations', intermediate between the Ministries and the individual enterprise. Like the latter these were in effect *khozraschot* organisations (*i.e.* they had their own balance sheet), but in relation to individual enterprises and their constituent plants they took over a number of former Ministerial functions with regard to the drawing-up of output plans, planning investment and the technical equipment of plants, and arranging the supply of individual plants and enterprises with materials and components and the marketing of their products. To this extent their function could be said to resemble that of large combines or holding companies in capitalist countries in relation to constituent companies of the group. As elsewhere, a fairly radical price-reform accompanied the other changes in both Poland and East Germany.

None of these decentralising changes, whether called simply 'reforms' or a 'new economic mechanism', went so far in relaxing centralised control (and correspondingly restoring the influence of the market) as had the Yugoslav scheme of 1950-1. Some have, indeed, regarded this experiment as going too far in its restoration of 'market autonomism' and dismantling of central planning. The crux of the change in this case was the institution of the so-called 'self-managing enterprise' as basic industrial unit. This, like the 'trusts' of the '20's in the U.S.S.R.

of which we spoke earlier, played the rôle of operator and trustee of State-owned industrial property, subject to the conditions of a statute or charter (fixed capital not being the legal property of the enterprise, which enjoys only conditional use thereof, like the *kolhoz* with land in the Soviet Union). The second distinctive feature of the Yugoslav system is that the governing body of the 'enterprise collective' is an elected Workers' Council (in all enterprises with 30 or more workers), from which is elected in turn a small management committee (varying in size from 3 to 11 members, including the director) to supervise managerial policy and the detailed conduct of the enterprise. These two bodies have competence in matters of discipline, labour relations, appointments and dismissals and methods of production. The director himself is appointed by a special appointing committee composed of an equal number of representatives of the Workers' Council and of the local government body (the Commune); and after appointment the Workers' Council has the right at any time to submit a petition for his dismissal.

The enterprise is free to determine its own programme of production, (such planning targets as are set by planning bodies have the character of guide-lines for industries and are without obligatory force): moreover, it can fix its own prices and enter into contracts of sale and purchase, subject to any 'price-ceilings' that national or local government bodies may fix (and in the mid-'60's price-fixing by central bodies was extended until it covered about a third of industrial output and a half of consumers' goods output). Whatever 'net income' or profit the self-governing enterprise may make (after paying taxes and obligatory payments into reserve funds) is at its free disposal, for use as a fund for investment and modernisation or for payment of premia to workers as supplements to the basic wage. (Formerly only a limited proportion of net income was at its disposal; but since 1965 this has been raised to 100 per cent).

The decentralising tendencies of fifteen years later in other socialist countries has not only been less extensive in the powers given to the enterprise but has for the most part

stopped short of conceding control over policy to elected councils. The exception to this was the Czech reform proposals of '68, which made provision for at least experimental introduction of workers' councils, having powers in the appointment and dismissal of managers. Thus the Czech *Action Programme* proposed that there should be "democratic bodies in enterprises with specified rights towards the management of the enterprise"; "managers and chief executives of enterprises would be accountable to these bodies for the overall results of their work"; and "these bodies must become a direct part of the managing mechanism of enterprises, and not [just] a social organisation" (C.f. *Marxism Today*, July 1968, pp. 207, 213). More generally this is referred to as making provision for "the dynamic development of socialist social relations, combin[ing] broad democracy with scientific, highly qualified management". But although in Poland workers' councils had been temporarily instituted in 1956 (and then soon afterwards reduced considerably in powers and status), no such innovation accompanied economic reform in the '60's in Poland or in East Germany (D.D.R.) or in the Soviet Union. In Hungary, however, the appropriate trade union is supposed to be consulted over the appointment of industrial managers; and in commenting on this obligation to consult Prof. Istvan Friss remarks: "Trade Unions have not the formal right of vetoing a nomination, but under our conditions it is hardly possible for the supervisory organ [making the appointment] to neglect an emphatic opinion of the trade union" (*Reform of the Economic Mechanism in Hungary*, ed. I. Friss, Budapest 1969, p. 39). Further, in deciding on allocations from the enterprise incentive fund, or 'sharing fund', the director has to conclude a formal agreement with the trade union committee of the enterprise. In Bulgaria an elected production committee has charge of bonus distributions (and also apparently 'examines' production plans).

If we revert to the Soviet reform and look at experience of its operation to-date, one is bound to say that, while its initial promise was considerable, its actual outcome on the whole has

been somewhat disappointing. Its implementation was designed to be spread out gradually over the years following its initial announcement in September 1965; and its actual progress turned out to be even more gradual than its rather cautious introduction had foreshadowed. Initially it was announced that by the end of one year (i.e. by the start of 1967) some 10 million workers, or about a third of all industrial workers, would be covered by the new system of incentives. In fact only a quarter of that number, employed in some 700 industrial enterprises, had been transferred to the new system by that date. A year later (i.e. by the start of '68) these figures had been raised to 7000 enterprises and one-third of all industrial workers; these enterprises accounting for about 40 per cent of industrial output. Even by the end of '69, four years after its original introduction, the transfer was still not complete. The 'new system of planning and economic incentives', as it is officially called, had by then been introduced into 36,000 industrial enterprises, these now covering rather more than four-fifths of industrial output and a probably rather smaller proportion of total industrial employment. It seems fairly clear that its introduction and extension met with considerable opposition, if only in the form of some 'dragging of feet' in the Ministries and supply-organisations (*Gossnab*), or else met with greater objective difficulties than had been anticipated. The latter may well have been in large part due to the slow and patchwork nature of the introduction itself. (E.g. an enterprise transferred to the new system while its suppliers and/or customers were still working under the old: the enterprise might take on additional orders in the spirit of the reform, only to find that the additional inputs were not available.) Alternatively, difficulties may have arisen from the cramping effect of still operating within the framework of the supply-allocation system, which continued to account apparently for between two-thirds and three-quarters of the value of the inputs of a typical enterprise.

There is considerable evidence, however, that bureaucratic opposition, or at least reluctance to adapt themselves to the new methods and arrangements, played a considerable part in

the result. Fairly numerous exceptions have in practice been made in applying the reform to various branches of industry. To begin with, in some branches of heavy industry detailed stipulations about output-assortment (so-called *nomenklatura*) continued to be made, for fear of shortages of certain types of equipment and machinery needed to fulfil the investment-plan. We find the director of a chemical combine complaining that "the entire range of production is planned from above by Gosplan and by the Ministry", and others complaining that the *nomenklatura* lists continue to specify output "down to the last kilogram or the last screw" (*Ekon. Gazeta*, 1967, No. 37). According to an article by Prof. Liberman in the Gosplan organ (Liberman and Zhitnitski, 'Economic and Administrative Methods of Controlling the Economy', in *Planovoe Khoziaistvo*, 1968, No. 1), there had been quite a crop of 'exceptions' of this kind, representing a carry-over of former administrative methods into the new situation. "To this very day," the article stated, "the economic press reports cases in which *glavki* and Ministries assign planning indices to enterprises", reminiscent of old methods of planning. It mentions instructions issued by enterprises amounting to "non-observance of the ordinances stipulating that the output-programme of an enterprise must be based on the latter's direct contractual links with the consumer". The article proceeds to cite chapter and verse for these complaints: for example, the Ministry of Machine Building for the Light and Food Industries in 1966 "altered the plan for half its enterprises in Leningrad", and in 1967 "changed each quarter the cost-plan of the Krivoi Rog Metallurgical Plant, contrary to the Statute of Enterprises which strictly lays down that any change in the plan must be made in agreement with the enterprise".

It should be explained that, as regards the enterprise incentive fund, the original intention of Liberman and others in the discussions immediately preceding the reform have been changed in one significant respect. It had been proposed that payments into this fund should be made as a certain proportion of balance-sheet profit (or rather of *profitability*, in the sense

of profit as a ratio to the 'capital funds' in the possession of the enterprise in question). This was opposed by a certain number of influential economists in high places; and when it came to working out a concrete scheme, a compromise was adopted, according to which payments should depend *both* on profitability *and* on the volume of output sold. Not only this, but the scale according to which payments into the 'Material Incentive Fund' were to be made related them to the *increase* of sales and to the *increase* (or alternatively deficiency) of profits over 'planned profits' (*i.e.* the estimate of results made by the enterprise at the time of drawing up its production and financial plan for the coming year). This meant that a serious penalty attached to *not* reaching the target set, and that the 'prize' for achieving any given level of performance would be greater the more leniently the plan-target or estimate for both profit and sales was set.\* The scheme accordingly provides little or no encouragement to an enterprise to be ambitious in its budgeting and programming, but rather the contrary; and the old problem of enterprises playing for safety by holding back and concealing their potentialities and reserves in order to justify lenient and easily-attained targets remains. There have also been complaints, additionally, that the 'norms' defining the proportions of profit payable into the enterprise fund (norms which are not uniform but are adjusted according to the differing circumstances of various industries) are too low to provide an adequate incentive. In the first year of the reform the resulting increase in earnings on the average for all workers and employees seems to have been no more than 7 per cent in enterprises transferred to the new scheme, and that for actual production-workers appreciably less than this figure.

\* This despite the fact that the deductions from 'planned profit' for the incentive fund were made larger than the deductions from 'above-plan profit', apparently in an attempt to meet this difficulty. The former meant that the penalty or loss from falling short of the target was specially great; and unless there was good reason to expect this extra penalty to be *more* than offset by the reduced incentive for exceeding the target, so far as target-setting was concerned this attempt could have been expected to prove abortive.

On the other hand, the vice-Chairman of Gosplan claimed on the basis of the first two years' performance that analysis of 580 enterprises transferred to the new system in the course of 1966 had revealed a distinct improvement in their main indices compared with their previous record: not only rate of increase in profit and rate of profit, but also ratio of output to capital and labour productivity. Even he admitted, however, that "in a number of cases the superior organs have violated the rights granted to enterprises", and referred to "frequent and unjustified alterations in plans without preliminary discussion with the enterprise" and other interferences with "the rights of enterprises" hindering "development of economic initiative on the part of enterprises" (these including uneconomic interference by Ministries or *Gosstab* with contractual supply-arrangements between enterprises). Such shortcomings he cautiously declared to be "to a considerable degree temporary" (A. Bachurin in *Planovoe Khoziaistvo*, 1968, No. 9).

By the end of '69, however, more critical remarks upon the year's results were beginning to appear. The Chairman of Gosplan, for example, in his annual report in December 1969, spoke reprovingly about "unjustifiable increases in the number of personnel" on the part of some enterprises, a growth of average wages faster than growth of labour productivity leading to "overspending of the wage fund", a shifting of production towards higher-priced items and "violating of planned assortment" (*Pravda* and *Izvestia*, 17 December 1969). A new debate about the reform showed signs of opening, with its conservative critics becoming vocal once more (emboldened perhaps by events in Czechoslovakia and by reaction against its so-called 'market socialism') and its initial advocates proclaiming the need for the reform to be carried further, especially as regards trade in producers' goods (or means of production) and the right of enterprises to free disposal of the residue of profit after making (proportional) obligatory payments to the State (e.g. A. Birman in *Literaturnaia Gazeta*, 11 February 1970).

## 5. DECENTRALISATION AND DEMOCRATISATION

So far we have been discussing centralised and decentralised methods from an economic angle, as though the considerations involved were primarily technical in character. In such matters, however, it is impossible to separate economic effects and economic issues from political, if only because human beings and human attitudes are intimately concerned with the level at which and the manner in which decisions about production are taken.

In the first place the question concerns human beings as regards the system of economic incentives governing their actions, attitudes and decisions at the level of production—whether these are of a kind to harness attitudes and interests of the individual plant or enterprise and its workers so as to identify these with the *social* interest, or whether they are such as to introduce what from a social standpoint are contradictory and distorting effects, inviting anti-social behaviour (as we have seen was the tendency of bonuses geared to quantitative performance in fulfilling plan-targets). More important even than this is the effect upon human attitudes and initiative at lower levels of the degree to which people *participate* in the taking of decisions, or alternatively play a mainly passive rôle as recipients of various orders or commands or injunctions handed down to them from higher levels. The latter is little calculated to stimulate initiative at lower levels (to put it mildly) such as the mastery of modern technique and productive organisation (let alone socialist principles) requires. In Soviet industry, for example, the calling of a production conference of all workers in a plant is obligatory at some stage of plan-preparation. But it will manifestly make a world of difference whether this is merely a way of 'putting everyone in the picture'

(as they used to say in the army in wartime) about what has already been decided upon 'higher-up', or whether opinion voiced in discussion at such a conference can influence and determine what goes into the plan and how this is implemented. Here there are varying possible degrees of influence and participation, evoking respectively varying degrees of responsibility (or the lack of it) towards production and its problems among those involved. As we saw at the beginning, issues such as these are intimately related to the character of what Marx called the social relations of production in socialist society, because they affect the relations of workers, individually and as a producing group or collective, to the economic system as a whole. In other words, the whole discussion is vitally concerned with the extent to which these social relations of production in socialist society develop in line with the rapidly developing forces of production, or alternatively lag behind the latter and come into conflict with them.

In my booklet, to which I have already referred, *Argument on Socialism* (p. 56), I wrote about the need for socialism to develop among workers "an altogether different attitude to production . . . [and] a widening of horizons to embrace a positive interest in the results of production and in improved productivity that previously was lacking". On this the passage in question ventured to enlarge as follows:

"It is true that such attitudes and responses will not blossom overnight: they will not be created automatically by a government proclamation that industry is socialised. . . . For this very reason the institutional set-up of a socialist economy may make a world of difference to the outcome. Too much centralisation—a period of economically-necessary centralisation dragged out for too long—may cramp and smother any such new attitudes and responsibilities as new socialist situations ('industry now belongs to us') may spontaneously create. On the other hand, situations in which initiative *from below* is encouraged and appropriately blended with planned co-ordination from above; in which

democratic participation is combined with the 'collective discipline' that modern productive techniques demand—this may serve to develop these new attitudes, leading to new levels of 'collective consciousness' such as in an individualist, exploiting society (with its pay-packet bias) was unknown."

The question of 'industrial democracy' has had quite a long history of discussion in the labour and socialist movement, since pre-First World War Syndicalism with its advocacy of trade unions, built on industrial lines, directly taking over industries and running them, and a little later in this country Guild Socialism seeking to marry trade union or syndicalist control with nationalisation of the traditional type. We have seen that in the early months of the Russian Revolution there was extensive taking-over of factories by factory committees, spontaneously on their own initiative (rather in the same way that peasants in 1917 had seized the landlords' estates for themselves). As can well be imagined, the result was pretty chaotic, since each factory not only was apt to indulge in as much talk as production, but tended to produce and to dispose on its own of whatever it willed, without coordination with other factories or with the needs of the economy as a whole. It is hardly surprising that before long these 'syndicalist-type' factories should have been subjected to central government control and direction (many of them, indeed, were unable to continue production until supplies of materials etc. had been allocated to them from central sources); especially as the onset of civil war made the systematic continuance of production essential. In this situation the principle of one-man responsibility for managerial decisions and appointment of responsible managers from above was insisted upon. This experience in the early days has been taken ever since as demonstrating that conditions of modern 'social production' imposes strict limits upon the practicability of 'direct democracy' in industry—of what the Webbs once spoke, in their book *Industrial Democracy*, as "primitive democracy".

Undoubtedly this experience holds some sobering lessons

for utopian enthusiasts, to which all socialists must pay serious attention. Yet what was true of the Russian working class at that time, in conditions of backward development of the industrial working class and of industry, could not be expected necessarily to remain true half a century later, with a working class that was much more developed and equipped culturally, technically and politically, nor to be true of much more industrially developed countries like Czechoslovakia after the Second World War. Because such extreme and 'spontaneous' forms of 'syndicalism' failed in those conditions of 'elemental' chaos and disorganisation between war and civil war, this does not mean that anything approaching the Yugoslav system of 'working collectives' with elected councils is to be dismissed out of hand for all circumstances and for all time. Indeed, it could be argued that modern technique, converting workers on the production-line increasingly into responsible machine-minders and supervisors of a machine-process, not only facilitates but *requires* the active participation of workers in the discussion and framing of production-policy. It is hard to imagine British trade unionists, shop stewards in particular, failing to take this view.

In 1918 (in a speech on the anniversary of the Revolution) Lenin said: "We know that in this extremely backward and impoverished country, where every hindrance and obstacle was put in the way of the working class, a long time is necessary before that class can learn to manage industry. . . . Workers' control, which in all the main branches of industry was bound to be chaotic, disorganised, primitive and incomplete, is now giving place to workers' management of industry on a national scale" (he was referring here to control of industry by national management boards to which "workers and the trade unions appoint representatives"). But to this, it should be noted, he was careful to add: "What in our opinion is most important and most valuable is that the workers have themselves taken a hand in managing." This participation of workers in decision-taking at various levels was clearly for him an integral part of that "real democracy for the majority of the people" which

was of the essence of socialism and without which socialism was bound to be one-sided and incomplete.

This aspect of the matter—surely an essential aspect of the mature development of socialism—is absent if we view the problem of decentralisation of the planning and administration of industry in exclusively technical terms. Viewed as an essential element in the process of socialist democratisation, in the economic as well as in the political sphere, it acquires an additional dimension. However efficient the devolution of powers in self-planning, investment-allocation and the like to large industrial associations acting as *khozraschot* organisations (as in the D.D.R.) may prove to be, this can provide relatively little opportunity for participation 'from below' in decision-taking because of the size of such associations as decision-units (although there could be indirect participation *via* trade unions at such a level). It was undoubtedly this aspect of the matter that gave the Czech proposals for economic reform their special interest and appeal for so many; since these proposals laid special emphasis on the democratic element in the change, and explicit provision was made for the inauguration of workers' councils, at least experimentally, with power of participating in managerial appointment. Thus the Action Programme of April 1968, after saying that "the programme of democratisation of the economy includes particularly measures to ensure the independence of enterprises and enterprise groupings and relative independence from State bodies", proceeded to make this declaration:

"The need arises for democratic bodies in enterprises with specified rights towards the management of the enterprise. Managers and head executives of enterprises, which would also appoint them to their functions, would be accountable to these bodies for the overall results of their work. These bodies must become a direct part of the managing mechanism of enterprises, and not a social organisation (they cannot therefore be identified with trade unions). These bodies would be formed by elected representatives of the

working team and by representatives of certain bodies outside the enterprise, thus ensuring the influence of the interests of the whole of society.”

The declaration added that “it will be necessary to propose a statute for these bodies and to use certain traditions of our works councils from the years 1945–8 and experiences in modern enterprises.”\*

This kind of emphasis would seem to be particularly necessary after a period of hypercentralisation—such as one could say was almost inevitable in the first country to build socialism, in a backward country and isolated amid a hostile capitalist world. It is necessary because the centralised system will itself have bred attitudes and habits of work of its own, together with a structure of relationships between administrative levels that may exercise a strongly conservative resistance to change and to the adoption and cultivation of new attitudes, relationships and methods. The old centralised mechanism will have reared a generation of planners and administrators, even of managers of enterprises, who having grown up with it and with its methods are practised in this and in nothing else. They may well have also a vested interest in its continuance, especially if any privileges, economic or social, attaching to position or to function, are involved. In course of time built-in resistances to other methods and to change come into being. To quote the Czech Action Programme once more, with its reference to “adverse results” of “maintaining people in functions who were not capable of any other way of ‘management’, who consistently revived old methods and habits”.

The very high degree of concentration of economic decisions at top levels that developed in the Soviet Union on the approach

\* See *Marxism Today*, July 1968, pp. 213–4. It is interesting to note that this document had said (in connection with “harmful characteristics of decision-making and management by central directive”): “Often well-meant words of ‘an increase in the people’s participation in management’ could not help as in time this ‘participation of the people’ came to mean chiefly help in carrying out orders and not in settling the correctness of the decisions.”

of war, during the war and after, entailed a relationship between higher administration and producing units (as we have seen) that amounted in the main to a one-way flow of directives that producers themselves were under obligation to carry out, often in mechanical fashion. The latter had very little scope for displaying initiative and could have had little sense of participation, even if in the course of plan-making their reaction to proposed production-targets was canvassed and there was some feed-back of information, data and opinion from factory-floor to top planning levels. It is to this kind of relationship and stratification that one refers when one speaks of bureaucracy and bureaucratisation. Thus over-centralisation tends to breed the type of administrator, on the one hand, whose answer to every difficulty is to issue an administrative directive or a propaganda-exhortation forbidding some action and commanding another, and on the other hand lower-level personnel who temporise by waiting for orders before doing anything and who tend to lose the capacity as well as the will to act unless told what to do.

Resistance of confirmed habits, attitudes and ideas, embodied in a traditional bureaucratic structure, would seem to have been quite largely responsible for the ‘stalling’ of the economic reform, with its decentralising measures, and for the difficulties its introduction has encountered. Difficulties, of course, there were bound to be with a change of this magnitude. What is important is that there should be the will to deal with these as they arise and a momentum of change that carries it through and can learn from experience at the same time. Some of the difficulties may have been due to the very caution and hesitancy with which changes were introduced; since in a change of mechanism of this kind there is an interdependence of its parts or elements, such that if some of them are introduced without the others they may be frustrated in their functioning, and the new half-way situation may prove to be a worse situation, having less logic and consistency than the pre-reform situation itself. A certain minimum of associated and interlocked changes may be needed to make the new system work



coherently and to show its superiority to the old. This is probably a fairly common feature of economic (and other) structures, even if it is commonly disregarded when piecemeal changes and reform are under discussion. There seems to be a very real danger of decentralisation getting bogged down in some such unsatisfactory half-way state and expiring in a series of half-hearted compromises. We have noticed this type of interconnection in the decentralising process with reference to the need to combine decentralisation with a more rational price-system. (If, as the Chairman of Gosplan complains, enterprises have a tendency to shift output-assortment to "more highly-priced items", then for the shift to be rational and not anti-social, things more highly priced, relatively to what they cost, than others must be those in *greater demand*—the price-differences must not be just accidental or the action of enterprises in response to them will be irrational.) Another example is the connection between giving enterprises more latitude in planning their output, in pioneering new lines and models, etc., and giving them discretion in making their own supply-arrangements on a contractual basis: otherwise the former may be more nominal than real.

One thing in particular that may prove to be a necessary condition for the more decentralised mechanism to function adequately is an ending of the old (and still continuing) situation of almost-universal 'sellers' market'. This, a product of over-tight planning—trying to fulfil too many objectives at once and to get more out of given productive capacities and resources than, realistically assessed, these really allow—was at one time glorified by Stalin on the ground that it was natural under socialism for demand always to run ahead of supply, with the implication that this stimulated increase in the latter by keeping producers on their toes. But we have seen that the situation has some serious negative results, which experience of suiting supply to demand has increasingly revealed. Indeed, it removes the producer's incentive to adapt his supply to demand, especially as regards style and quality, by making him king over the consumer and the consumer his suppliant. He can

adopt a 'take-it-or-leave-it' attitude to the latter, whether individual consumer queuing up in a shop or producing enterprise procuring its supplies, if there is complaint of inferior quality or of supplies not conforming to specification in the supply-contract. The state of shortage is apt to cause delivery-delays disruptive of production, and to aggravate the effects of any errors in planning and in the supply-allocation system (resulting, e.g., from the margin of error associated with the balance method, of which we have spoken). Moreover, because of the general state of supply-shortage, there is generated a universal tendency to hoard supplies wherever possible as an insurance against delays in delivery and their disruptive effects upon production-programming. This is not only wasteful but cumulatively aggravates the initial evil. What is crucially needed in present circumstances to make a decentralised mechanism work smoothly (or for that matter even a centralised one) is to create a situation where less reserves are held in the aggregate (because there is less against-emergency hoarding), but the reserve stocks that *are* held consist of the right things in the right places, so that they can smooth out temporary gaps due to misjudgement or to the unforeseeable. This in turn implies replacement of chronic supply-shortage by something nearer to a 'buyers' market', which will in turn enable the buyer or consumer to exercise his right of *choosing*. And this, after all, is one element, not an unimportant one, in what people mean by economic democracy.

Looked at in this way, the problem we are faced with is not just one of patching-up the old system with this or that minor modification or detailed reform: we are faced with a choice between two alternative systems of planning, highly centralised and relatively decentralised, each having its own methods, instruments and consistency-requirements. A compromise blend or mix of the two may succeed only in combining the weak and not the strong points of both. It should be emphasised, however, that the choice of which we are speaking is not between planning and not-planning, but between two systems of planning with different degrees and range of centralised decision-

taking; the one relying mainly on obligatory directives and quantitative targets as its instruments, the other relying more largely upon 'economic' instruments, in particular price-indicators, as means of influencing and steering the decisions taken at the operational level of enterprises.

There remains, however, one major problem connected with decentralising decision-taking to the enterprise-level, which must be mentioned and should be faced quite frankly, if only because it has been referred to relatively *little* in the discussions of recent years. If coupled with democratic control over enterprise-policy (e.g. through the agency of workers' councils), greater enterprise-autonomy may mean an upward pressure on wages, and hence a tendency for money wage-increases to outrun increases in output of consumers' goods—in other words, it may enhance the danger of inflation. The reason is fairly obvious. The interest of the enterprise as a workers' collective is likely to be biased in the direction of improving the position of members of this collective, not only in the way of bonuses for good work but also by advancing the level of their earnings wherever possible. This can be done, of course, in the way of upgrading, lenient setting of output-norms under payment-by-results systems, excessive overtime, even where possibilities are limited of raising wage-scales themselves for particular grades and categories (e.g. because these are settled by collective agreement covering whole industries). This tendency will be enhanced if it is easy for the additional wage-cost involved to be passed on into the selling price. (An analogous difficulty may be one connected with transfers of labour between plants and industries when technical methods change in a labour-saving direction, enabling the same output to be obtained with a smaller labour-force).

There is little doubt that this fear has done much to harden the hearts of planners and senior administrators against changes involving enhanced democratic participation in framing policy at the enterprise level. Yugoslav experience seems to illustrate that this is a real and not an imaginary danger: here there have been several bouts of pronounced

inflationary pressure on prices, especially in the early '60's, which prompted the setting up of a Federal Price Control Board in 1962, by which any price-increases had to be sanctioned. Experience of Workers' Councils in the early days was apparently that their bias was towards using profit-sharing funds at the disposal of enterprises for additions to wages (such additions quite commonly amounting to as much as 20 per cent of the basic wage and sometimes even more) at the expense of modernisation and development. It is claimed, however, that this tendency has been subsequently reversed, and that in later years Workers' Councils showed greater concern for the needs of long-term development and the proportion of such funds devoted to development markedly increased (cf. R. Moore, *Self-Management in Yugoslavia*, Fabian Research Series 281).

To say that this is a problem attaching to decentralisation is not of course to say that it is insuperable. Frank recognition of its existence as a problem may actually assist in its solution. It could be solved by raising the level of social consciousness among workers and clearer recognition by them of the specific ways in which sectional interest conflicts with (and needs to be subordinated to) the interest of the system as a whole. To what extent and how soon a growing sense of political responsibility can be relied upon to deal with the difficulty experience alone can show. The difficulty should be lessened, if not precluded, by a sufficiently comprehensive and efficient system of control over selling-prices: that is, by making it difficult for enterprises to pass on increased wage-costs in higher prices. Success in doing this may well be crucial to the practicability and extent of decentralising measures. Here again it has to be remembered that the more that prices are subjected to central price-fixation, the more rigid they are likely to be, and the less frequently are they likely to be revised to meet changed circumstances (whether costs or demand). The less, accordingly, will prices be capable of reflecting the demand-supply situation at any one time. Yet if there is no central price-fixation, quite considerable upward pressure on prices is likely to make itself felt. Experimentation

can alone tell what degree of compromise between price-flexibility and central price-setting is capable of securing the best balance of conflicting objectives. It is not something that can be settled by argument from first principles, still less by combing the classics for relevant texts. In the meantime, to maintain a proper sense of proportion in discussion of the subject, one has strenuously to eschew the idea that in the so-called 'free market system' there is ideal price-flexibility. If we look around the capitalist world we shall see that there are plenty of rigid 'maintained prices' (possibly the majority); moreover, these are so-called monopoly-prices; and we can witness all-too-many signs of inflationary pressure in that 'free market system' as well.

What the direction and degree of future change will be is impossible at the moment to forecast with any assurance. In some major respects one could say that socialist planning and administration at the outset of the '70's stands at the cross-roads. To-date the direction of change has undoubtedly been towards greater decentralisation, even if the pace and extent of change have varied considerably. But in the Soviet Union, at least, there might well be a halt, and even a conservative drawing back to the limited degree of economic reform at which Poland and East Germany (D.D.R.) seem for the present to have become stabilised. That this will prove a stable halting place seems unlikely: more likely that the kind of problem we have touched upon will impel further decentralising measures eventually, in search for a more complete and rounded reform. What may well be decisive, however, is not the economic results *per se* but the social objectives involved. In other words, the question of which direction is taken is even more a political than it is an economic question, as we have tried to show: concerned as it is with the degree of democracy to be achieved and the amount of participation of individual workers, on the one hand, and of individual consumers, on the other, in deciding the manner in which and the ends towards which the system of production operates. Even if there be signs of a freezing of bureaucratic structures since the setback to reform

in Czechoslovakia in 1968-9, it is hardly likely that the new technological age and higher living standards can be contained within the old administrative mould inherited from Stalin's day. Economic problems sometimes acquire a compelling logic of their own. One may well see some rapidly changing alignments and landmarks in the socialist world in the decade that lies ahead.