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# A Change of Course and More Rapid Growth\*

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*The following article first appeared in the economic journal EKO, n. 6, 1986. The Editorial Committee of Political Economy wishes to thank the Academician Abel G. Aganbegian who kindly consented to its translation for this journal. The wide-ranging general overview put forward in the article takes on particular interest as its author is actively engaged, at the highest level, in the working out of guide-lines of the on-going economic reform in the USSR. On the basis of this initial overview, Political Economy hopes that it will be possible to start a discussion of the problems of the Soviet economy and of the planned-economy countries in general.*

It is not always easy for contemporaries to fully appreciate the relevance of events which they happen to witness or in which they take an active part. As the saying goes: they can't see the wood for the trees.

But no one could doubt the historical relevance of the 27th CPSU Congress. I had the opportunity to be present through the whole Congress and to sense the unusually creative atmosphere, the feeling of openness and straight talk, criticism and self-criticism and, most important of all, the power of the constructive, future oriented thinking.

The 27th Party Congress towers above the many international meetings of our time. The Congress is given further significance by the fact that it was convened at a turning point in history both of human kind and of our country. The specific nature of the moment we are living through may not be fully understood, but it comes out conclusively in the Central Committee (CC) political report that Comrade Gorbachev put before the Congress. Taking into consideration the qualitatively new situation in the country and in the international arena, the Congress laid out a well-grounded political course of action, a basic part of which is the Party's new economic strategy.

\* Original title: *Perelom i uskorenje*. Translation from Russian to English by Stefania Jaconis.

The Party's strategic line is embodied in the new edition of the CPSU Programme, while the development of the organizational principles of party-life is written into the Statute of the Party, approved unanimously by the Congress delegates. The report's main conclusions and proposals were forcefully spelled out in the Resolutions passed by the Congress.

The document "Basic Guidelines for the Social and Economic Development of the USSR in 1986-90 and up to the Year 2000", approved by the Congress, is also of crucial importance.

Now both the Party and the people have at their disposal a bold framework for a well-defined course of action. The time has come for major turnarounds, for converting ideas into action.

#### INCREASING THE TEMPO OF THE COUNTRY'S SOCIAL AND ECONOMIC DEVELOPMENT

The Party strategy, as approved by the Congress, focuses on the idea of acceleration of the social and economic development of the country. The concept of acceleration is many-sided and has both qualitative and quantitative aspects, since it encompasses all fields and all the interconnections of our society; the economic sphere in this respect stands out as the main domain of the historical struggle for the planned development of socialism and its transition to communism.

From the quantitative point of view, acceleration means a turning point in development, an upsurge in the rates of growth of the main economic and social indicators. As is known, national income utilized for consumption and accumulation serves as an overall indicator for the development of the country's economy. For a number of reasons analyzed in Party documents, over the last 15 years the rates of growth of national income have gone from 41% in the 8th five-year plan (FYP) period down to 28% in the 9th, 21% in the 10th plan and 17% in the 11th. Consequently, all the other economic and social indicators have also slowed down. Acceleration aims in the first place at a substantial increase in the rhythm of Soviet development. Growth rates of national income are calculated to increase from 17% to 19-22% in the 12th plan and 25-28% in the subsequent five-year periods, so that, over the time to the end of the year 2000, national income will almost double.

In this process, the 12th FYP must serve as a turning-point. It is difficult to suddenly overcome the inertia of such a gigantic organism as the economy of our huge country. Therefore, the rates set for the 12th FYP show an increase, but at a relatively moderate pace. The main task that confronts this period is that of creating the conditions required to achieve a sharp increase in national income and in all the other indicators during the 13th and the 14th plan.

If these figures are to be expressed in terms of average annual growth of national income, it turns out that the acceleration goal means bringing the rate up from roughly 3% per year in the 11th plan to almost 4% in the 12th, and to 5 and more percentage points in the 1990's. Clearly, the absolute increases in national income and in the other economic and social indicators will be even more impressive. Thus, the absolute increase in national income, which totalled 71 billion roubles in the 11th FYP (1985 over 1980), will be in the order of 96-111 billion roubles in the 12th plan, which means that national income will be 1.6 times larger than in 1985.

Faster rates of growth of the social product will make it possible on the one hand to satisfy to a greater extent the needs of the population, with a substantial increase in the living standard of the Soviet people, and, on the other, to promote the investment effort required for the technical transformation of the material basis of our society.

The quantitative aspect of the acceleration programme is, of course, exceedingly important. However, the thrust of the Party's economic strategy is rather to be found in the new quality of growth, which will result in the first place from a change in the sources of economic development, in its structure, in the content of each percentage point of increase in production.

#### INTENSIFICATION AND THE QUALITY OF GROWTH

The crucial element in the concept of acceleration of social and economic development is the transition of the economy to an intensive path of growth. As is known, until now our economy has developed predominantly through extensive factors, i.e. through the infusion of new resources into the production process: fixed capital, investment, fuels, raw materials and labour force. Increased efficiency in the use of resources played a relatively minor role among the factors of economic growth. To put it simply, we developed predominantly through laying out money. As was pointed out in the 1985 April Plenum of the CC of the CPSU and at the June CC meeting on questions related to the speed-up of scientific and technical progress, this path is bound to lead the economy to a dead-end. The only viable alternative is for the economy to move on to a track of intensive development, and for this purpose increased efficiency in social production must become the main source of growth. This is the key problem for our future development, a problem which is compounded by the objective tendency towards a slowing down in the growth rates of productive resources.

I have written in the past that the 9th FYP period was the last one to record a sizable rate of resource increase — a characteristic feature of our economy for a rather long time. In this respect, the 9th plan was typical of

postwar growth (1955-1975). A rapid deceleration in the rate of growth of resources ensued, and this tendency will continue to appear in the 12th and subsequent plans (see Table 1).

In fact, it is unlikely that growth of resources will step up in the 1990's. This means that (with a 25-28% targeted increase in income) efficiency of social production will have to go up by 17-20% in each five-year period, against a planned rate of increase of 11-14% in the 12th plan and the mere 7% which was attained in the 11th FYP (see Table 1).

TABLE 1

	9th FYP (1971-75) %	10th FYP (1976-80) %	11th FYP (1981-85) %	12th FYP (1986-90) %
THE END RESULT				
National income utilized for consumption and accumulation	28	21	17	19-22
PRODUCTIVE RESOURCES				
The integral indicator*	21	13	9	7
of which:				
fixed capital assets	52	43	37	30
output of extractive industry	25	10	8	6
labour-force in material production	6	6	2	0,5
EFFICIENCY OF SOCIAL PRODUCTION				
The overall-integral indicator**	6	7	7	11-14
of which:				
capital productivity [output/capital ratio]	- 16	- 15	- 14	- 7 -9
efficiency in the use of industrial raw materials	2	10	8	12-14
Productivity of social labour	21	14	15	19-21

\* The integral indicator is obtained by converting all types of productive resources into a single unit of measure through indicators of efficiency of each particular item (just as capital costs are discounted down to the present through efficiency norms). This reduction is made possible by the fact that all types of resources have one underlying "substance", labour, but take up different forms: embodied labour years (production of extractive industry) or live labour, which can be computed through the number of workers in material production.

\*\* Measured in terms of national income utilized.

The task of accelerating social and economic development of the country will have to be carried out in resource-constrained conditions. The observed reduction in growth rates is due: with respect to labour, to the demographic consequences of the war and the re-allocation of a number of workers to sectors providing services to the population; with respect to the extraction of fuels and raw materials, to a deterioration in geological

and economic conditions; with respect to the capital stock, to a slower pace of investment growth in the past five-year plans (rates of increase slumped from 44% in the 9th plan to 23% in the 10th and 18% in the 11th).

The acceleration programme requires efficiency of social production to be roughly doubled, both to make up for the declining increase in resources and to secure an increase in the rates of growth of national income. The task is extremely difficult: a radical volte-face is needed from the tendency to inertia that has come to characterize our economy and which manifests itself in the "relaxed pace" of development, i.e. in a growth path that uses an ever-increasing amount of resources to achieve a moderate and basically stable rate of increase in efficiency (on average, 1.4% per year). Right now, in the 12th plan period, we must leap forward and increase dynamic efficiency by between one and a half and two times. Accordingly, labour productivity is to grow from 15% to 19-21% in the 12th plan, i.e. by 30-40%. Economy in the use of fuels and raw materials must rise by over 50%; the increase in final production per unit of fuels and raw materials employed must go from 8% to 12-14%; the downward trend in the output-capital ratio must slow down from 14% to 7-9%.

All of this must be done in the near future, during the coming five-year plan period. At the same time, in the course of these few years we must lay down the conditions for an even greater boost in productivity in the 13th and 14th five-year plans. Labour productivity must go up on average by 30% or more, since from the 15-year period to the year 2000 its level is calculated to grow by 130-150%, and the brunt of the effort will be borne by the end of the present decade.

Likewise, efficiency in use of fuels and raw materials is to increase from 8% in the 11th plan to 12-14% in the 12th plan, and to an even higher level in each of the subsequent plan periods. Lastly, as was stressed in Ryzhkov's report to the Party Congress, by the mid-1990's we shall have to stabilize the output/capital ratio, and then proceed to raise it. On the whole, over the next 15 years, we intend to increase the productive potential of the economy roughly by as much as we plan to increase national income, i.e. two-fold. By way of comparison we recall that in the course of the last 15 years the productive potential of the country (fixed capital assets) grew three-fold, while national income increased in all by 80%. This gives an idea of the extent of the planned upsurge in production efficiency. In the past, two-thirds of our economic growth were due to an increase in resource use, and rises in efficiency accounted for only one-third of it. Beginning with the 12th five-year plan, this pattern must be radically changed: the share of extensive factors will be phased down to one-third, and intensive factors will come to the forefront. As early as the 1990's, the overwhelming share in production growth (at least three-fourths of it) must be achieved via the intensive path.

I am aware that I must have tired the reader, forcing him through such a host of figures, but, alas, economists have no better way of making sense of an argument than by relying on trend data. Plans for the future are not explained by pointing fingers; one needs to have solid quantitative indicators, behind which lie qualitative changes also — in the case in point, a drastic turnaround with respect to the factors and sources of growth of our economy.

Let us proceed with our analysis.

There are two ways to secure an increase in efficiency. The first is through the mobilization of hidden organizational-economic and social reserves, which amounts to making a better use of the available potential reserves. This process can be set in motion almost immediately, and it is no exaggeration to say that it is already at work to foster acceleration, which can be seen just by considering a few facts of the recent past. In the first quarters of 1984 and 1985, the rate of economic growth decreased substantially. A harsh winter made itself felt, but the main reasons for this negative trend were poor organization and a relaxation in order and discipline. In the first quarter of 1985, industrial production went up by a mere 2% over the corresponding period of the previous year. An immense effort was required to check this unfavourable trend and to reverse this state of affairs. The 1985 April Plenum of the CC of the CPSU called on the workers to fulfill the plan unconditionally and to achieve this the growth rate of industrial production needed to be pushed up to 5%. As is known, this was done. In spite of the slow-down of the first quarter, over the entire year industrial output growth totalled 3.9%, as was targeted for the year's plan, without any need to revise it. A more energetic approach in the use of organizational-economic, and particularly social factors, i.e. relating to individual behaviour, made it possible to achieve even more satisfactory results in the first months of 1986. As I write, data on the first three months of the year are already available: industrial production went up by 6.7% over the same period of last year. I do not remember anything like this over the past 8 years! Of course, one must not overstate the significance of data on quarterly trends: that amounts to counting unhatched chickens. But all these figures, which substantially exceed those embodied in the plans, do mean something with respect to the possibility of improving things. And yet we have only touched upon the most superficial layer of our reserves, by improving organization somewhat and by strengthening discipline. New powerful levers, such as an improvement in management, a deeper concern for economic results, the restructuring of the economic mechanism itself must come into play. We are just beginning to adopt such measures, the full effect of which still lies ahead. But large as these organizational, economic and social reserves may be, they are still limited, and in the process of using them, it will become increasingly difficult to keep the pace required. And yet we shall have not

just to keep this pace going, but actually increase it! In fact, we shall have to make a major leap forward in the 1990's, and it must be clearly understood that such a transformation must be set off primarily by scientific and technical progress.

In order to achieve the level of productivity required, it is not enough to have the models of new types of equipment. We must produce new technology on a massive scale and apply it in the different sectors of the economy. This requires both time and money.

Let me give an example. Hundreds of thousands of 5-ton ZIL trucks are operating on USSR roads. This truck has been in production for over 20 years. It has an engine with a 150 HP carburettor, which consumes on average 28 litres of petrol per hundred kilometres. It is obvious that these vehicles must be used more efficiently, and the same applies to all automobile transport. In this field there exist quite a few reserves and possibilities: better repair work and better servicing, a more rational use of carrying capacity, a more economical way of driving and so on. As a result of all this, ways can be found somehow to reduce fuel consumption.

But a radical step forward will be made only when the obsolete truck is replaced by the new Diesel ZIL, with a 180 HP engine, which uses no more than 19 litres of fuel per 100 km (and of a kind which is only half as expensive). Thanks to its greater capacity, the Diesel ZIL trailer truck can carry loads of up to 3 tons more than its predecessor, so that fuel expenditure per ton of load will be even lower.

But in order to benefit economically from the new carrier we must start by rebuilding from scratch both the main vehicle plant "AvtoZIL" in Moscow and its local branches, which will require over 2-billion roubles of investment and considerable time. This reconstruction work is already under way, and by the end of the 12th five-year plan Diesel ZILs will be part of overall transport capacity. The efficiency of the new system will increase over the years, as diesel vehicles replace former generations of petrol-driven ones. But the basis for future returns will be laid during the 12th plan.

The situation is pretty much the same in the case of a number of other production lines. The main benefits from scientific and technical progress, the prerequisites of which are being created now, will accrue to the country in the 1990's. This is why higher rates of growth are forecast for the 13th and the 14th five-year plans. The scientific and technical structure of the economy will play a major role in increasing efficiency.

This is our prospect for the future. But, in order to narrow the gap between now and the future, we must put into practice the new investment and structural policy set by the Party. This is also where the new quality of development comes in.

The new investment and structural policy is aimed at creating the conditions for large-scale application in the economy of technology which



embodies the latest scientific achievements. Attention has to be focussed on the production of plant, equipment and machine tools for all the other sectors of the economy. In the 11th plan, investment in mechanical engineering went up by approximately 30%, while the rate of increase over the 12th five-year plan is set at 80%. One half of this huge amount of investment will be for the technical reconstruction and re-equipment of engineering firms, which will be supplied with up-to-date technology for metal working. About one half of all the equipment existing in mechanical engineering at the beginning of the five-year period will be replaced by new, more productive and efficient equipment.

The new technical basis of the sector will make it possible to produce the most modern technology, to replace the vast majority of today output of mechanical engineering fundamentally by new production. The yearly rate of renovation of mechanical engineering will rise to 13% by 1990, as against 4.5% in 1985. In the "Basic Guidelines" approved by the 27th Party Congress it is stated that new plant and equipment must bring about a 50-100% increase in labour productivity and the reliability of work performance.

What needs stressing here is that it is not only a question of abandoning the production of obsolete items to switch over to single items incorporating new technology. Integrated systems of machines and equipment will be put into production, which will power the transition to new technological systems of the highest efficiency.

A radical transformation will be brought about by the target to step up the rate of growth of this leading branch of the economy. Over the 11th plan, the total production of the machine-construction sector increased by 35%, while in the 12th plan we are faced with the task of raising it by 40-45%, that is, by almost twice as much as the entire industrial production growth. This will strengthen the leading position of mechanical engineering in the economy, and, more important, will furnish a powerful basis for technical reconstruction of the entire productive apparatus of the economy.

Mass production of new equipment will make it possible to achieve a fundamental technical re-equipment of all the branches of the economy and to introduce the most progressive technology. This re-equipment in the course of technical reconstruction is to provide the guidelines for future economic strategy. Already in the 12th FYP the share of investment in the economy going to technical reconstruction and equipment is set to go from 37% in 1985 to 50% in 1990. Altogether, in the next five years 200 billion roubles in investments will be allotted to technical reconstruction, i.e. more than was allocated to this end over the last 10 years. The yearly coefficient of write-off of obsolete equipment on average will more than double, to 5-6%.

The main problem at present is that of rapidly re-equipping technolo-

gy of production, to be followed by the production and wide diffusion of new technological systems, based on the latest technology, which will bring about a jump in efficiency, cause a dramatic increase in labour productivity (by 2-3-5 times) and will contain the cost of fuels, raw materials and intermediate products. All this will be done without increasing capital intensity of production. In other words, first importance must be given to the economies allowed by the new technology. Economic efficiency must underlie all decisions regarding technical choices.

In view of the special relevance of the machine construction complex for a qualitative reshaping of socially productive forces, the CC of the CPSU and the Council of Ministers of the USSR passed a detailed Resolution in 1985 concerning the further development of mechanical engineering. This document epitomizes the State programme relative to the upgrading of this key branch of the economy.

The new investment and structural policy will change the content of each percentage point of growth in our economy. If now an average 3% increase in national income is achieved by and large through an enlargement of output of traditional, partly obsolete production, 4-5 percentage points of growth in future five-year plans will come in the first place as a result of a sharp increase in output of qualitatively new production, which will be more efficient and with a higher productivity. We have already mentioned the rapid replacement of old-fashioned production lines in the machine construction sector. The same will occur in other branches as well, such as the chemical industry. As is known, a "Complex Programme" for the 'chemicalization' of the economy has been approved. In the 12th plan the output of the chemical industry is calculated to grow by 30-33%, which means that this branch will grow at a rate 50% faster than the whole of social production.

Along with a 21-24% increase in industrial output over the 12th five-year plan, the share of high quality production will grow 1.9-2.1 times.

To sum up, intensification which derives from a wider use of the achievements of the scientific and technical revolution is singled out as the main prerequisite for a qualitatively new growth of the Soviet economy.

#### THE NEW QUALITY OF GROWTH. SOCIAL PRIORITIES

Another outstanding feature of the new growth is its social orientation. On the basis of acceleration of the country's social and economic development, the radically new course will be oriented towards solving outstanding social problems, and will favour an increase in the well-being of the people and a consolidation of the socialist way of life. In this respect, emphasis will be on solving the most acute and burning social problems.

Of foremost importance among these is the task of improving the food

supply to the population, and it is planned to more than double the rate of growth of agricultural output. If in the 11th FYP agricultural output stood at 6% more than in the 10th, the corresponding target for the 12th plan increase is in the range of 14-16%, which will substantially exceed the growth rate of the 9th plan (13%) and that of the 10th (9%).

Achievement of the targeted goals will demand a fundamental restructuring of the whole agro-industrial complex. Such a restructuring is already under way and will be continued. What the sector needs is wide application of intensive technology, transition to a fundamentally new management structure and the implementation of a new economic mechanism which will make it possible to come to terms with the new tasks.

Another major problem relates to the supply of the consumer goods market with a wide assortment of high quality goods and services. To this end a complex *ad hoc* programme has been approved concerning the production of mass consumer goods and the development of the service sector. The programme calls for an acceleration in the development of these branches. As an example, while in the 11th plan light industry recorded an 8% increase in output, during the 12th plan its growth rate will more than double. On the whole, output of non-food consumer goods will increase over the five-year period by no less than 30%. At the same time, the output of goods related to recreational activities and domestic services is calculated to rise by 30-50%. The quantity of services requiring payment will be increased by 30-40%, and both their quality and the level of servicing will increase. But the thrust of the programme does not boil down to quantitative indicators: the utmost importance will be given to increasing the variety and improving the quality of consumer goods. In this connection, greater demands will be placed upon the machine-construction sectors: these must supply the most updated types of equipment for the production of consumer goods; more will be demanded also of the chemical industry, which must supply high-quality materials. In both these areas co-operation with socialist countries will play an increased role. Leading foreign firms will also be drawn into the production of high-quality consumer goods. In order to bridge the large gap that exists at present between the output of consumer goods and actual demand, and to overcome a situation whereby a sizable amount of unsold production has to be downpriced, we must radically improve the economic links between the population, the commercial network and the producing units. At the Party Congress the issue was raised of a reshaping of the economic mechanisms for light industry; there must be a sharp reduction in the number of directive targets passed down to enterprises. Their plan of production will be formed on the basis of agreements with trade organizations, which in their turn will be held responsible for bringing their orders into line with consumer demand. Intersectoral productive and

industrial trade associations will be created for the manufacturing and selling of the products of light industry and for an enlargement of trade in high-quality items.

The supply of housing will also receive major attention. Over the past 15 years in the USSR the provision of living space amounted to about 1.5 billion square metres, i.e. roughly 30 million apartments. Over the next 15 years it is intended to build over 2 billion square metres (40 million apartments), which will be of improved quality and more comfortable. Statistical evidence indicates that this will be sufficient to achieve the target set out at the Party Congress: to supply each Soviet household with an individual apartment or a house by the year 2000. To this end we shall have to give a boost to housing construction, which over the last five-year periods stabilized at a level of 500-550 million square metres. The 12th plan sets the target for housing at some 570 million square metres, while at the same time a powerful basis must be developed for civilian construction, so as to supply on average over 700 million square metres of housing during the 13th and 14th plans.

With respect to social problems, special emphasis will be laid on changing the character of work, increasing its attractiveness and its creative aspects, abolishing heavy, monotonous or uninteresting tasks. Use of manual labour will be sharply reduced. At present about one half of all workers and collective farmers are engaged in manual work; their share in the total labour force will go down to 15-20% by the year 2000, and will thus be reduced 2.5-3 times. To give an idea of the size of this task let me remind you that over the past 15 years the number of manual workers was reduced in all by roughly 20%.

Clearly, such a programme will require a thorough-going policy of mechanization and automation of production. In the 12th plan, for instance, the level of automation of industrial production must increase two-fold. To this end, measures will be taken to improve organization, deepen specialization in production and to concentrate auxiliary production.

Extensive use of electronic calculators and automated systems based on new computing and processing techniques will greatly enhance the creative aspect of the work of engineers and office staff. An upgrading of the service sector, of the commercial network and of public catering, as well as increased sales to the consumer of domestic appliances will greatly reduce the amount of house-work, and therewith increase leisure for the workers. The additional free time can be usefully spent in raising people's educational levels, in acquiring new skills and in childrearing. Together with the reform in the educational system, which unifies schooling and work training, and with the on going radical reform of high and intermediate school education, these measures will lay the ground for the formation of a new type of worker, more capable of meeting the requirements of today's level of development of social production.

The force behind the process of qualitative restructuring of the productive forces of our society is therefore twofold: on the one hand, there is technical re-equipment of the productive apparatus, which calls for better-qualified workers, and, on the other, the increasing demands of production on the part of the workers themselves, brought about by a higher level of education. Ultimately, this will lead to the attainment of the objective set forth by V. I. Lenin and embodied in the Party Programme, which states that the level of labour productivity in the USSR must become the highest in the world.

#### TOWARDS A RADICAL REFORM OF MANAGEMENT

The tasks set for the social and economic development demand a fundamental restructuring of the planning and management system, of the entire economic system. At the Congress, Comrade Gorbachev said: "The present situation is such that we cannot limit ourselves to partial improvements. What is needed is a radical reform". What is meant by this is the creation of an integrated, efficient and flexible system of management, which will allow us to make fuller use of the advantages of the socialist economy.

In the documents of the 27th Congress a firm basis is provided for the aims and the guidelines needed in the restructuring of the economy. In this respect, it is necessary above all to spell out the objectives and the aims to be built into the new economic and management system. In the first place, this system must subordinate all production to social requirements, to the satisfaction of people's needs. This means that we must put an end to the dictatorship of producers over consumers, do away with shortages, induce suppliers to work with the wants and the interests of the consumer in mind. Enforcing this type of behaviour would make it possible to satisfy social needs while at the same time limiting consumption of resources. Today many resources are simply wasted, in that they are used up to no avail: things are produced that are not actually needed, and they either stand idle, as for example considerable amount of machines and plant, or they gather dust in the warehouses, in the trade centres and the stores, as happens with stocks. This problem has become all the more serious with the increase in the scale of production. Over the last 10 years, for instance, circulating material assets have grown at a much faster pace than gross social product, considerably exceeding normative rates. The enormous amount of idle or poorly used equipment has caused a substantial reduction in capital productivity.

Another aim of the reform, closely related to the first is the orientation of the entire economic system towards an increase in quality and efficiency, towards acceleration of scientific and technical progress. What is

needed here is that end results of production be assessed from the point of view of the whole economy, and this can be done only provided that the price system is brought into line with socially needed expenditures, and that prices are a reflection of economic efficiency of production. Hence the importance of fully accounting for costs, not only for direct expenditure but also for the costs that are incurred at different levels of the economy, and which may be determined, for instance, by use in the production of more expensive resources, or by a need for additional investment. In our view, full cost accounting is possible only by introducing a charge on all types of resources. In this case account of the full economic effect of producers' activity and its comparison with full costs will provide a truly final indicator and will objectively help evaluate efficiency of production. This is a necessary but insufficient condition for a satisfactory functioning of the economic system. It is not sufficient because direct links must also exist between the companies activities, i.e. collective effort, and labour compensation, incentives and living conditions to which collective work is entitled.

Under the new economic system it is not society at large, represented by the State, which must be held responsible for the poor performance of a "work collective", but the collective itself must account for unused reserves and opportunities. And, conversely, the additional effect which results from the collective's efficient work must be retained to a large extent within the collective itself, so as to act as an incentive to further improvement of work. As is well known, at present no such thing exists. What happens in point of fact? It is rare for people who work harder to get a higher wage, better living conditions and so on. Predominance of planning "from the level achieved" brings down the highest results to the average; more reliable suppliers are given increasingly higher targets, they get smaller wage rises per percentage point of productivity increases, additional reductions of fuel and material costs are poorly rewarded and economy in the use of fixed assets is not rewarded at all. We must realize that those who work under a double-shift system find themselves in a worse situation, from the point of view of living conditions, than those collectives which work through one shift only. I could bring dozens of examples. This state of affairs must be radically changed. The aim of the change is quite clear: those who obtain better results must also get a greater reward.

And, lastly, the third direction the restructuring of the economic system and of management will take is the increase of democracy in the economic field, the drawing of workers into management and the rewarding of initiative and socialist entrepreneurship. With respect to these problems the Party Congress took a very significant stance, aimed at setting up councils of work collectives; these will more effectively defend workers' rights in accordance with the law.

As one can see, the restructuring is many-sided.

Obviously, such a radical reform of management cannot be implemented across the system at the same time, in the way campaigns are launched. It is a very complex process, which requires careful consideration and systematic work over a number of years. As is known, this work has already started. Wherever possible, new bodies are being created for the direction of interrelated branches. Examples are "Gosagroprom" (the State Committee for the Agro-industrial Sector) and the new Bureau for Machine Construction. Similar bodies are being planned to direct the construction complex. At the Party Congress a proposal was put forward to set up joint management of a group of transport ministries.

The new economic conditions established in 1984 for the enterprises belonging to a small number of ministries have now been applied, in a more detailed form, in 50% of industrial enterprises. In our opinion, it is not possible to give an unequivocal assessment of the large scale experiment that is being tried out. It is aimed in the right direction, in that its goal is to increase the rights and broaden the sphere of autonomy of enterprises and production associations. On the whole, one can judge its result to be positive: there has been an improvement in the fulfillment of supply plans, the rate of growth of labour productivity has increased somewhat and cost reduction has been more rapid. But the reorientation towards quality and efficiency is not "radical", and its magnitude is not in accordance with the 12th plan targets. In the last analysis, this is due to the fact that the new measures implemented in the course of the experiment in no way amount to a radical reform. In particular, this experiment was thought out in 1983, under altogether different conditions, when the task of qualitatively changing social production and speeding up scientific and technical progress did not play such a crucial role as they do today. This is why the regulations implemented with the experiment have turned out to be rather half-hearted measures, not radical ones. "Petty tutelage" over enterprises and production associations has been curtailed to some extent, but previous instructions and regulations continue to operate that stand in the way of initiative and entrepreneurship.

The new economic conditions have been shown to be at odds with collective arrangements relative to the use and reward of labour; no provisions have been made to improve the material and technical supply system, a domain which is of vital importance to the operation of an enterprise; the initiative and creativity of enterprises have been further restricted. Adequate incentives have not been provided to stimulate and reward quality and technical innovations. Such incentives were increased somewhat in 1985, but they have not been made mandatory to carry out the experiment. All this explains why, on the one hand, the experiment has resulted in significant improvements in enterprise performance, while, on the other, it has very much disappointed many managers. Of course,

results have differed in different places. Where the new regulations were adopted with a truly creative attitude and the enterprises thoroughly set to work, as for instance in Byelorussian light industry, the boost to productivity and to quality of output was much more striking than in many other places. In any case, the economic conditions set by the experiment have not so far succeeded in obliging work collectives to make the tough choice of either working better and make a better living, or of keeping on with the old ways and living a mean life. As things stand, slack workers don't have a bad life of it at all, and so many do little and take the rewards. Among the many enterprises that were converted to the new system of management the majority showed a worse performance in 1985 than in previous years, that is in the second year of the experiment, relative to the first year, when they were granted preferential treatment in supply, transport services and so on.

Consequently, the search for more efficient methods of management in industry is still under way, and will continue. In this respect, great importance is attached to the experiment currently under way at the Togliattigrad automobile plant (VAZ) and at a machine-construction association in Sumi, which have become self-financing on the basis of the profits share that they are able to retain, in accordance with the new "normative" distribution of profits. They have now been granted a greater autonomy and increased rights, while at the same time they for the end results take greater responsibility of their productive activity. Considerable importance is also attached to another experiment which is now under way in 46 shops and departments of firms in Novosibirsk. The experiment aims at introducing collective forms of management and incentive setting, and in addition to shopfloor workers, it involves engineers and technical staff. Here results have been even more impressive: labour productivity went up by 14% during the experimental year, which is an increase of 2.5-3 times compared to previous years, and also compared to shops where the new regulations are not in operation. There was a very real explosion of initiative and activity, as people set out to work with drive and skill. Labour productivity in the year represented a 25-30% increase. This points to the fact that greater consideration must be given to work teams of this kind operating on a contract basis. In fact, it may be as well to put those principles at the very basis of the whole incentive system as the reform is introduced. This conclusion is supported by the evidence from the few enterprises and organizations that have been fully converted to the collective contract system, and *EKO* has given coverage to the first positive results achieved with the recent implementation of contract work in the construction sector and in the manufacturing of gas pipelines. This system is to be sanctioned also in a number of industrial enterprises, such as mining and lumbering, where it is simpler to evaluate results, which can later be applied to enterprises in other fields.



In restructuring the management system a crucial role is played by the change-over from a three-tier to a two-tier type of management. This is currently being done in firms that come under the mechanical engineering ministries, where the overwhelming majority of All-union industrial associations (middle management) have been dispensed with and production associations and enterprises report directly to central ministerial bodies.

This reform of the system of economic management has meant the creation of new production associations and devolution to them of control over an increased number of enterprises.

It is hard to overestimate the importance of the targets set by the CPSU CC meeting of June 1985 regarding the need to integrate scientific research in the actual production in industry. A large number of sectoral research institutes, previously operating in isolation from production processes, which often did not even have design sections, are now being transferred to research-production and production enterprises. New scientific-production associations are being created to stand in the forefront of technical progress in their fields. Some 150 of these associations are planned for the machine-construction sector.

Particularly satisfactory results were achieved in the Byelorussian railway system after the introduction of the new economic management as was noted during the Congress. During a single year this organization was able to release 12 thousand workers and to increase labour productivity by as much as it had previously gone up over the entire five-year period. According to the report read at the Congress by N. C. Konarev, the Minister of Transport and Communication, a project is currently being worked out to apply the experiment to other railway systems. In our view, the results obtained from the experiment being carried out in 10 automobile works in the RSFSR (Russian Soviet Federative Socialist Republic) is also very promising. There they have done away with compulsory assignments to transport enterprises and directed them towards better servicing of their clients. During the experimental year there was an improvement in the quality of service, while fuel consumption decreased by 18%. True, in a number of cases statistical indicators of transport use showed a deterioration, but there is nothing surprising in that: reports for the year were on a factual basis, while in previous years they had been based on assignments.

An experiment is being carried out also in household services. I was recently in Estonia and visited a factory in Tallin that does repair work on television sets. The new "agreements" permitted between repair workers and manufacturers have aroused considerable interest in people in the outcome of their work, which has led to a major improvement in the way demand for such services is met.

The 27th Party Congress recommended that the restructuring of the management system and of the entire economic mechanism should pro-

ceed further along the same lines. There is no need to repeat the main indications that came out of the Congress, and the enthusiasm with which they were received by economic organizations. We now face the task of implementing these guidelines so as gradually to switch over to an integrated system of economic management that will allow us to meet the targets set by the Party for the speeding up of the country's social and economic development.

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