

# RADIO FREE EUROPE *Research*

## COMMUNIST AREA

● USSR

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### KOSYGIN'S RIGHTIST SPEECH TO PLENUM

In his 15,000 word speech yesterday,<sup>1</sup> A.N. Kosygin outlined a programme of economic reforms aimed at increasing managerial freedom, emphasizing profitability, abolishing the Sovnarkhozy (regional economic councils), establishing about twenty new ministries to replace them, and improving incentives down to factory floor level.

He began his speech by using the words: "The Presidium is introducing for discussion by the Plenum.....," thereby stressing that a majority of the twelve members of the Presidium had voted for his report.

The need for the reforms, which amount to the most sweeping changes made in the economy since 1957, is simply stated. For years past the rate of return (both in terms of national income and output) per ruble invested has been sinking, while the rate of growth of labour productivity has also declined. Kosygin said that the Presidium is particularly dissatisfied with the performance of the chemical, forestry, paper, light and food industries as well as with the progress of building materials.

He also stressed that the neglect of agriculture in recent years (due to the "voluntarist" methods of Khrushchev, who was not mentioned by name) has held back the consumer industries. He criticized both the seven-year plan, for its underemphasis on the consumer industries, and the lack of fulfillment of it in the Group "B" industries, which he described as "systematic." These failures had held back real incomes and incentives. The "central task" now, Kosygin said, is to overcome this backwardness.

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1) Moscow Radio, 28 September 1965.

It is therefore evident that the main content of the five year plan (1966-70) will be its consumer orientation, which will be designed to accelerate the growth of Group "B" while allowing Group "A" to be restructured in accordance with the present need for more chemicals rather than more steel. Whether these good intentions will be fulfilled depends largely, once again, on the performance of agriculture, which is unlikely to have a flying start in 1966, after a notably poor harvest year in 1965.

### Construction Industry

To overcome the perennial problem of too widespread dispersal of resources, Kosygin announced that in future building organizations will be judged by the value of sites completed instead of by the number of rubles spent. He criticized the performance of the construction industry in chemicals, ferrous metallurgy, building materials, the paper industry and in synthetic rubber plants, delays in which must be costing the USSR heavily in terms of foreign exchange.

### Underemployment

Like Manevich three months ago,<sup>2</sup> Kosygin paid special attention to the present use of labour resources. With 85% of the working-age population employed, he pointed out that there are still 15% either in domestic work or tilling their private plots. He then said that there are "significant reserves of labour" in the small towns, particularly in the Western Ukraine, Byelorussia, Transcaucasia and some of the central areas of the RSFSR. Translated into less euphemistic language, Kosygin's "significant reserves" probably conceal a considerable proportion of what the West would call plain unemployment.

In the past the difficulty of finding jobs in the small towns has been accentuated by the tendency for new plants to be established in the big cities almost exclusively, but now Gosplan has been told to set up factories where the labour reserves are to be found instead of where it is most convenient. However, it is questionable whether such a policy can work satisfactorily, because factories need to be near their raw materials, power supplies, and communications, and of these three essentials at least two (power and communications) are rarely available in the smaller provincial towns.

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2) See Voprosy Ekonomiki, No. 6, 1965.

### Planning Reforms

Kosygin's emphasis here was on economic levers, material incentives, and reduction of subsidies. He announced that the long-awaited Factory Bill has now been passed by the Presidium and Council of Ministers and will be implemented after the Plenum. His main objective is to reduce the excessive regimentation of directors from above and to emphasize prices, profits, bonuses and credits.

The number of central targets handed down to the factories is to be drastically curtailed. Gross output, as the main index of a factory's work, is to be abolished, and to be replaced by "volume of output sold." Kosygin recommended this indicator because it will help to improve quality. The other central targets to be retained include assortment, which will gradually be decentralized as the contract system becomes more widespread.

Kosygin said that, for the consumer industries, the best indicators would be profit and profitability. Here he sided strongly with Professor Liberman's school of reformers against the more orthodox faction which wanted to make prime costs the basic indicator in this sector.

### Decentralization of Labour Targets

In future factories are to be free to plan their own labour productivity targets, the size of their labour force, and the average wage paid. The only central target to be retained in this group is the total of the wage fund.

Those liberal economists who also wanted the wage fund to be set free at factory level were disappointed by Kosygin. However, he was careful not to reject the idea out of hand, but to say only that it is "premature." In the long term, when adequate reserves of consumer goods have been built up, Kosygin is prepared to reconsider the proposal and to experiment with first ridding the consumer industries of all the central targets in the wage and labour fields.

Under the present system, about 30 targets for each plant are fixed centrally. The Liberman school of reformers had hoped to reduce these to about four, of which the main one would be profitability. This ambition is by no means fully granted by Kosygin, despite his agreement that profit and profitability are the best guides in the consumer fields. Kosygin's full list of future central targets reads as follows:



- 1) Volume of production sold;
- 2) Basic assortment;
- 3) Wage fund;
- 4) Profit total and profitability;
- 5) Payments to central budget and appropriations from it;
- 6) Volume of central capital investments;
- 7) Introduction of production capacity;
- 8) Introduction of new technology, and
- 9) Indices of supplies.

Thus something like twenty central targets have been abolished, but still far too many remain for the successful working of a genuinely flexible modern economy.

#### Long-Term Planning

In future, long-term plans are to run for five years, but Kosygin said that they are also to break down the control figures for each individual year. While this was done for industries in the past, it was not done for each factory, and this "defect" is now to be remedied.

#### Enterprise Funds to Grow

The proportion of profits left with the factories for their own investment funds is to grow rapidly in the next two years. In 1964 they spent only 720 million rubles on expansion (120 millions of their own and 600 millions of bank credits), whereas for 1967 they are scheduled to spend 4 billion rubles, of which 2.7 billions are to come from amortization payments and the remainder from their own funds.

#### Interest Rate to be Introduced

Kosygin said that in order to reduce the uneconomic demands for capital investment by some managers, the free allocation of investments would be stopped. Existing factories would in future obtain long-term credits, and the same would apply to new factories in industries with high profit margins. He did not specify what the rate of interest to be paid for the credits would be, and by omitting any mention of industries with low margins (e.g. steel) he implied that they may continue to obtain their investments free.

Turnover funds (e.g. working capital) are also no longer to be supplied free of charge by the state. Instead they will be paid for by short-term credits (again no rate of interest was specified).

The level of profits tax, which at present bears no relation to the capital employed by a factory, is to be drastically overhauled. In future it will be converted into a "payment made for production funds," and therefore will in effect be an interest charge. Economic Gazette recently suggested that the rate should be 6-7%,<sup>3</sup> since at this level it would adequately replace the present profits tax. Kosygin gave no direct indication that he disagreed with this suggestion, but in the long term he clearly expects the "payment for funds" to replace part of the turnover tax as well as profits tax. He therefore seems to be aiming at 7% or upwards rather than the relatively moderate (by British standards) 6% level.

### The Supply-Demand Experiment

Kosygin referred to the 1964-65 experiments in the shoe, clothing, and textile industries as having been successful. They now cover about 400 factories and are based on only two central targets -- sales of output and profits. It is probably no coincidence that the former of these two targets bears a close relationship to the main index chosen by Kosygin for the bulk of industry in future (i.e. "volume of output sold," see page 3 above).

### Price Reform

The new State Prices Committee is to submit its recommendations for industrial wholesale prices by 1 January 1966, but Kosygin does not expect the altered prices to be in force until 1967-68. They are to reduce the elements of subsidy on the one hand and overcharging on the other in order to reflect real costs more accurately. In those branches of industry where the Kosygin reforms are to be introduced before 1967-68, Gosplan, the Ministry of Finance, and the State Prices Committee are to establish the necessary changes in existing prices. Kosygin did not specify which branches of industry are effected, but it is reasonable to suppose that he means the consumer industries primarily.

### Abolition of the Sovnarkhozy

The changes mentioned above, dealt with in the first part of Kosygin's speech, will have a much greater impact on Soviet industry than the second, which covers the abolition of the Sovnarkhozy (local economic councils) and the establishment of some 20 new ministries.

Kosygin complained that the Sovnarkhoz staffs were too often non-specialists who slowed down the development of individual branches of industry by their lack of technical know-

3) See C.A. paper of 17 September 1965 "Interest Rate to be 6-7%?"



ledge. Moreover, at present the plans for new technology are examined by one agency, those for production and capital investment by another, and those for supplies by a third. This Kafkaesque nightmare is to be driven away, in Kosygin's theory at least, by the revival of the branch principle, i.e. the establishment of ministries galore.

The new ministries are to be responsible for planning, guidance of production, technical policy, supplies, finance, labour and wages. The scientific research institutes for the various industries will be subordinated to them. The new all-union ministries are:

- (a) Ministry of Heavy Electrical and Transport Engineering;
- (b) Ministry of Constructional, Road-Building and Communal Engineering;
- (c) Ministry of Tractor and Agricultural Engineering;
- (d) Ministry of Automobile Industry;
- (e) Ministry of Electrical Industry;
- (f) Ministry of Instrument-Manufacture, Automation and Guidance systems;
- (g) Ministry of Chemical and Oil Engineering;
- (h) Ministry of Machine Tools and Instrumentation, and
- (i) Ministry of Engineering for the Light, Food and Consumer Industries.

The Union, Republic Ministries to be established are:

- (a) Ministry of Ferrous Metallurgy;
- (b) Ministry of Non-Ferrous Metallurgy;
- (c) Ministry of Coal Industry;
- (d) Ministry of Chemical Industry;
- (e) Ministry of Oil Industry;
- (f) Ministry of Refining and Petrochemicals;
- (g) Ministry of Forestry, Paper and Wood-working Industry;
- (h) Ministry of Building Materials Industry;
- (i) Ministry of Light Industry;
- (j) Ministry of Food Industry;
- (k) Ministry of Meat and Milk Industry.

Before this long list comes up too lurid visions of new armies of insufferable bureaucrats, it should be realized that many of them already exist as State Committees and that, therefore, all that will change in most cases is a label on the door together with more pay and status for the heads of the committees who will become the Ministers (and be duly grateful to Kosygin).

Naturally the heads of the 40-odd Sovnarkhozy which are being abolished will be far from grateful, but as some of them will be a long way from Moscow in their newly-reduced capacities they are unlikely to constitute an effective disgruntled pressure group. Kosygin will be able to split them by promoting the more efficient ones to secondary posts in the new Moscow ministries, and therefore the overall level of discontent should be low since the main movement is towards the communist Mecca instead of into outer darkness as it was in 1957.

#### Anti-Ustinov Manoeuvre?

The abolition of the Sovnarkhozy brings with it bad news for D.F. Ustinov, the Secretary of the C.C., CPSU, who presided, from March, 1963, until March, 1965, over the Supreme Sovnarkhoz, USSR, and therefore over Gosplan. Ustinov's former organization is now to be abolished, which means that Gosplan USSR is henceforth directly subordinated to the Council of Ministers (i.e. to Kosygin). Thus a major transfer of power to Kosygin is almost effortlessly achieved, and with it yet another blow is struck at residual metal-eaters, who for years past have pinned some of their waning hopes on the Supreme Sovnarkhoz USSR, which was established and largely staffed under a man with 30 year's experience in defence industry.

#### Conclusion

While the reforms announced by Kosygin are by no means as far-reaching as the liberal economists would have hoped, nevertheless the trend is clearly in their direction. Group "A" is being soft-pedalled, about twenty central targets have been abolished, the interest rate is to be introduced, supply and demand is pronounced a success in three industries, and Kosygin has said that even the wage fund may be abolished in consumer industries when the time is ripe.

The elements of recentralization implicit in the 20 new Ministries are plain enough, but the new Factory Bill gives managers appreciably more control over their labour force, wage levels, turnover funds, amortization payments etc. than ever before.

Those of the new Ministers who recall the days prior to 1957 may find that their offices are no less palatial in 1965 but that many of their grassroots prerogatives have slipped from their grasp. Kosygin's reforms seem likely to succeed in one objective, that of increasing the factory's freedom of manoeuvre, but they will not necessarily solve his economic problems of declining productivity and margins. Too many central targets have been retained and too many Ministries established.

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