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TOWARDS A SOCIALIST MARKET ECONOMY (II)

In the appendix below, it is cogently demonstrated that the USSR has reached the threshold of the secondary stage of economic development, where the "importance and number of middlemen rapidly increase," according to W.W. Rostow's theory. To confirm the point it is only necessary to recall the statistics for 1959 (Pravda, January 22, 1960) and the 7-year plan¹, both of which indicate a trend towards a larger proportion of non-productive to productive workers.

The necessity for the Kremlin to accept the ideological defeat implicit in the authorization of hire-purchase was another such sign. In its first month of general application, the credit system succeeded in capturing 3.5% of all the sales excluding food, to which it does not apply, in the RSFSR (Financial Times, December 31st, 1959). It has probably been a success, so far, from the regime's point of view as well as the consumers', because Literature and Life, (23 December 1959) has recently advocated its extension to the countryside, from the cities where the initiative was first taken. For comparative purposes, one should perhaps note that in 1959 the ratio of personal debt² to consumer income in the US was about 54%, so that the Soviet citizen, as is to be expected, has plenty of room for expansion in the business of acquiring consumer goods at prices above cost. This may well prove to be a field in which he overtakes the US much faster than the Kremlin plans.

At present it is probably true to say, as Mr. Goldman argues on p. 12 below, that the goods sold on credit are largely slow-moving items, for which the high capital cost has been a restraining factor. But once the Kremlin has tasted the large and steady profits to be made in the hire-purchase business, it seems most improbable that it will resist the temptation to expand it as fast as the supply of consumer goods permits.

Another example of the secondary growth stage is the USSR's new-found interest in the admass society. Not only has the centralization of retailers' advertising begun (p. 11 below), but recently a group of Soviet economists, on a 10-day visit to the US, chose to spend one full day of their

¹Voprosy Ekonomiki, No. 1, 1960, p. 105.

²Includes mortgages as well as consumer credit.

³Financial Times, February 19th, 1960.

tour at the offices of a large advertising agency in Madison Avenue.⁴ If this heralds a progressive change from the old imperatives of Soviet advertizing under Stalin ("Buy Soviet champagne!" etc.) to the more enticing styles appropriate to state capitalist persuasion, it will be a welcome development for the consumer, however alarming Soviet intellectuals and ideologists may find it.

Two interesting trends pointing in the same direction are those towards smaller furniture and larger clothes. Four months ago, Komsomolskaya Pravda noted that the living room of the new flats now being built measures about 16-20 sq. meters, while the bedrooms are 8-14 sq. meters (22 October 1959). If only the most essential furniture were used, it would occupy 40-45% of the living room, and more than 50% of the bed-room. The response to this piece of elementary market research was swift enough in all conscience. Five weeks later Radio Moscow (December 1st, 1959) announced that orders for small sized furniture would be accepted by special stores in Moscow, Leningrad, Sverdlovsk, Gorky and elsewhere, delivery within three months. To overcome the fears of buyers who in recent years have read of new flats so small that the old-style furniture literally could not be moved into them, the plug promised that

"assembly and installation in the buyer's flat will be carried out by specialists at the expense of the furniture store."

The case of the thick man is more diverting, and perhaps significant. As in Western Germany, where the girth of the average citizen has expanded almost visibly since the currency reform of 1948, there is a lot more of the USSR's population than there was - not so much numerically, as sartorially. Izvestia, (2 December 1959), with nostalgic, rose-tinted sentimentality, laments the passing of the days when the textile factories designed clothes for millions of figures modelled on the Apollo Belvedere and Venus de Milo, and states bluntly that Soviet mass-produced garments now fit only 43% of the market. It transpires that Soviet men and women, in general, are much bigger than they were. "Consequently," Izvestia reports, "it is necessary greatly to reduce the output of small-sized clothes and more than double the production of the large sizes." The article ends with a plea, with which all travellers to the USSR will concur, for fashion designers with a higher education. The possibility of the emergence, within the next few years, of a Soviet Yves de St. Laurent must now be resolutely faced.

R.R.G.

⁴Manchester Guardian, 10 November 1959, Appendix II below.

"When, toward the end of last year, the quality of jackets and trousers produced by the Nikopol garment factory of Dnepropetrovsk Sovnarkhoz was checked, three-quarters had to be sent back for changes. This is just as in the popular saying: 'What are your daughters doing? Sewing and singing. And the mother? Ripping and crying.'" - Podgorny report by Kiev Radio, February 17, 1960.

MARKETING -- A LESSON FOR MARX

By Marshall I. Goldman
Harvard Business Review*
January-February 1960

Is marketing wasteful? Are advertising, merchandising, consumer credit, and many other middleman activities luxuries that can really be dispensed with? Questions like these often trouble businessmen, and they have long disturbed philosophers and social critics. The uneasiness about the role of the middleman dates back to Aristotle, at least, and it is reflected today in John Kenneth Galbraith's The Affluent Society.¹

It will come as a surprise to management to learn that the case for marketing is now receiving strong support from -- of all places -- the Soviet Union. Of course, the Soviets' experience cannot be stretched to justify all marketing expenditures -- there or in the United States. But growth of the marketing function in the U.S.S.R., where Marx's ideas are held in such high esteem, does offer some revealing insights into the intrinsic worth of marketing functions. Since the state controls and operates all channels of distribution, one would expect that the intermediary activities so strongly criticized by Marx would have been de-emphasized if not eliminated altogether.

Yet the reverse is true. Startling as it might seem to us -- and to communists of five years ago -- the Soviets have found that in an advanced economy there are good uses indeed for product differentiation, advertising, promotion, and a host of related activities.

Two Stages of Growth

In his contempt for profit making by non-productive agencies, Karl Marx advanced arguments that were to have a profound influence on Soviet thought. Why should anyone but the manufacturer, the direct producer, be allowed to handle goods and profit thereby? While the phenomena of advertising, product differentiation, and installment credit were as yet unimportant in Marx's mid-nineteenth century, such practices typify the "parasitic functions" that he knew and criticized -- the activities of speculators, commission merchants, and money lenders.

Author's Note: I wish to acknowledge the assistance given me by the Russian Research Center of Harvard University in preparing this article.

¹ Boston, Houghton Mifflin Company, 1958.

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Marx did acknowledge that certain distributive operations were a continuation of the productive process and therefore did contribute to the general welfare. Transportation, packaging, and some categories of storage were permissible in his scheme. However, undue transfer of title and activities generally described by the word "merchandising" were considered to be unproductive. He thought they led to artificial price increases and in no way contributed to the real value of commodities.

To appreciate the rise and fall of these ideas in the U.S.S.R., it will help to borrow a concept of economic development that has been outlined by W. W. Rostow.* Let me put it this way -- two stages can be postulated in the evolution of marketing:

(1) At the primary stage, distribution involves the very basic functions of retailing and wholesaling, which seem to be indispensable. The population is largely agricultural and the standard of living is low. As the standard of living gradually improves, the wholesaling tasks of collection and redistribution and the retailing activities of direct selling are further supplemented by more sophisticated and specialized operations.

(2) In the secondary stage, the importance and number of middlemen rapidly increase. Soon there is the problem of calculating and meeting the demand of consumers who suddenly have a chance to exercise their choice among several varieties of a given good and competing types of goods. The first experiences in dealing with fickle Russian consumers explain much about the importance of marketing institutions peculiar to the secondary stage.

The Beginnings

The distribution activities necessary in the primary stage were the least objectionable to Karl Marx. While he felt that some aspects of the wholesaling functions were wasteful, he considered retailing to be a necessary concomitant of the division of labor in an industrialized society.

Let us examine the Soviets' organizational framework first, then the fate of marketing in the early years.

Patterns of Control

By 1931, the Soviet state had completely nationalized all retailing and wholesaling activities. Except for brief

* Harvard Business Review, Jan.-Feb. 1960.

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periods, the state store network has held a virtual monopoly in the urban areas ever since. Directly administered and operated by agencies of the Ministry of Trade, the state store network includes restaurant operations as well as food and nonfood sales. It also encompasses pawnshops, secondhand stores, as well as company cafeterias and stores. As can be seen from Exhibit I, the largest share of the country's sales volume now moves through the state stores.

The one major exception to the urban monopoly of the government store network is the kolkhoz (collective farm) market. While its relative importance has declined to somewhat less than 6% of total retail sales, its volume (in absolute terms) had remained fairly constant. Actually, the state store monopoly of nonfood good sales is not affected by kolkhoz market sales at all, since only food is sold in the latter.

Exhibit I. Share of retail turnover of the three main trade networks in the Soviet Union

(as per cent of total retail trade)

	<u>1940</u>	<u>1950</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>
Government (state stores)	62.7%	73.9%	63.0%	64.6%	65.1%	65.2%
Cooperative stores	23.0	24.1	28.1	28.3	28.9	29.1
<u>Kolkhoz</u> markets	14.3	12.0	8.9	7.1	6.0	5.7

Source: Tsentral'noe Statisticheskoe Upravlenie, Narodnoe Khoziaistvo SSR v 1958 Godu -- The National Economy of the Soviet Union in 1958 (Moscow, Gosstatizdat, 1959), p. 707.

As for wholesaling, the administrative and operational superstructure of the government store network is the Ministry of Trade system. While there have been innumerable reorganizations of wholesale and administrative units, they have always conformed to a basic pattern with control being exercised both vertically and horizontally:

#Vertically, most plans and orders are transmitted from the top All Union State Planning Organization for consumer goods -- Gosplan -- to the Ministries of Trade and to various wholesale offices in the different republics. The Ministry of Trade in each republic in turn supervises regional and urban trade administrations which control the ultimate retail units. The republic wholesale offices ship goods and administer the decentralized warehouses down to the local urban and rural levels.

#Horizontally, the republic Ministries of Trade issue directives to planning agencies and wholesale organizations in their areas. The urban trade administration supervises and directs all offices and outlets, both wholesale and retail, located in the geographical area.

Because of the two-way flow of authority, there is some overlapping of control. Whether control of a commodity is centralized at the upper echelon or is decentralized depends on the importance and availability of the goods. Those items that are most important in the daily consumption pattern but which are produced in somewhat limited quantities are planned and allocated at the top levels. Occasionally items which are not necessarily basic consumption components are also centrally regulated in order to assure them priority attention, but generally they are administered at more local levels.

Wholesaling Vindicated

Why are the functions of retailing and wholesaling essential in the primary stage of economic growth? Despite innumerable reorganizations, the basic functions of direct sales, storage, and assembly have had to be undertaken. No matter which organizations were abolished, the functions of retailing and wholesaling could not be eliminated. The work of the abolished agencies was inevitably shifted to some other unit.

One of the most interesting attempts to curtail wholesaling was directly provoked by Marxist ideology and its distaste for the intermediary:

"In 1930 there was a certain revival of Left Wing theories which held that in a planned socialist economy a wholesale link between the producing enterprises and the retail distributive system is unnecessary and superfluous. This led to the cooperative wholesale depôts being suspended and the individual consumers' co-operative societies (the main retail outlet of the early 1930's) obtaining their stocks direct from the industrial Sbyty (industrial sales offices).

"But the managers of the rural co-operative societies were generally ignorant of which manufacturing enterprises were in a position to supply their requirements, and in any case it was a greater tax on their intelligence to write out orders for goods on distant enterprises than to go to their nearest wholesale depôt and pick out what they wanted on the spot. This naturally led to delay in the receipt of goods and the accumulation of stocks in the manufacturers' warehouses."²

²Leonard E. Hubbard, Soviet Trade and Distribution (London, Macmillan and Co., Limited, 1938), p. 41.

It is interesting to note, too, what happened when the functions performed by the warehouses were shifted to the transportation agencies. Temporary storage in railroad warehouses and broken lot ordering were the inevitable result. Consequently most of the cost of operating the wholesale agencies was transferred to the transportation sector. The increased bookkeeping resulting from the broken lot ordering not only led to immeasurably poorer services, but it in no way reduced costs.

There are some situations, therefore, where it is virtually impossible to squeeze out the wholesaling function -- even in the kind of economy that the U.S.S.R. had 20 years ago. If this is attempted, the wholesaling activity inevitably bulges up somewhere else, causing a serious disruption of services and increasing costs.

Government Turnabout

There are other instances where abolishing the wholesale agent does not necessarily disrupt some other service, but does lead to inefficiency. A good example of a cut that had both intended and unintended results is commission trading:

The wholesaling function of selling agricultural products on commission was virtually forbidden in the Soviet Union for 23 years. For the most part, this had little effect on the state and cooperative networks. They operated easily without commission trade because the risk function in effect was assumed by the state as soon as the goods were produced. Furthermore, the incentive to seek added stocks was built into the system since the procurement agencies were under the direct control of the state organizations.

However, the prohibition against commission trade did seriously affect the procurement of goods produced on the private, peasant plots and, to a considerable extent, the operation of the kolkhoz farm itself. Historically, the Soviet peasants have devoted the greatest attention to the production of goods on their private plots. The flourishing of the kolkhoz markets was encouraged in order to provide an outlet for these commodities.

At the same time, since the law forbade middlemen to buy up peasant produce on a commission or private basis, this meant that the peasant had to abandon his farming chores. He had to sell the goods himself in the city. If the peasant was located far from any urban area, his goods usually had to be sold on local rural markets where they were already in abundance and would not reach the more important urban centers.

Because the peasant was forced to assume the additional role of salesman and travel to the city, the inevitable result was a loss of working time on the farm and a reduced supply of fresh goods in the cities.

Recognizing the waste involved in such a rigid policy, the Soviet government in 1953 announced that commission trade would thereafter be permitted. The cooperative trade system was authorized to solicit agricultural products on a commission basis for an advance payment of 50% of the expected sale price. The producer would retain title and bear the risk until the ultimate sale, when the remainder of the sales price minus commissions would be paid.³

Despite the ideological inconsistency of such a system, it clearly allowed a more efficient division of labor. The results have been a cheaper cost of distribution for a given set of goods and an increase in the volume of goods sold.

Innovations Supported

The Soviet Union supported a variety of other innovations in its primary growth stage to improve operating efficiency. I shall single out only three for comparison with certain marketing practices in the West.

Self-Service. First introduced in late 1954, self-service in the Soviet Union has grown so that by January 1959, in the Great Russian Republic alone, there were approximately 1,500 stores that used some form of self-service.⁴ Self-service is used primarily to sell food. The Russians consider it to be one of the most progressive forms of trade. Because of the use of self-service, labor force reductions of up to 20% have been reported.

Since self-service was known long before 1954, why was it not introduced earlier? These reasons are most important:

#Until Stalin died, marketing in the Soviet Union was a neglected topic. Little thought was given to it since there seemed to be more important things to learn and copy from the West in the fields of heavy industrial production and technology. Market innovations were ignored, therefore, because of lack of interest.

#The matter of honesty was and is a substantial obstacle. While stealing is by no means an insignificant factor in the West, the Russian consumer in his goods-hungry

³ See Marshall I. Goldman, "Commission Trade and the Kolkhoz Market," Soviet Studies, October 1958, p. 136.

⁴ A. Popov, "Torgovaia Set' V Semiletke" (The Trade Network in the Seven Year Plan), Sovetskaia Torgovlia, August 1959, p. 7.

environment has traditionally regarded it as an essential part of his daily existence. The whole problem of shoplifting is accentuated by an impersonal attitude toward "they." Even in the United States, where "they" usually refers to large impersonal organizations such as the United States Army or even the American Telephone and Telegraph Company, there seems to be less compunction about stealing or pilfering from such groups than when dealing with the independent corner merchant. In the Soviet Union, where the state owns the whole distribution network, the sense of guilt appears to be at a minimum.

As a result of these two factors, self-service in the Soviet Union was bound to run into special problems that were not obstacles in the West. For example, in order to check for shoplifting, as late as 1957, only a few customers were allowed in the store at one time. The other customers were compelled to queue outside. Consequently there were often more salesclerks than customers inside the store. Furthermore, goods on display are not necessarily the goods available to the consumer. Last summer I chose six large oranges in a Russian self-service store only to be told that these were not for sale. The oranges to be selected were in the lower bins and, although prepackaged in cellophane according to the best Western traditions, they were one half the size of the unwrapped oranges and badly bruised.

Automatic Vending. The use of vending machines has also been introduced to increase efficiency. Russians can purchase almost anything from a squirt of Eau de Cologne to beer from these devices. (The fact that the beverage vending machines all utilize one or two glass containers which are washed with no more than a cold spray from the machine is not unnatural since the sidewalk vendors sell their soda in the same fashion.) Human vendors are often located not just near the vending machines (as in the United States), but directly in front of them. Nonetheless, the device has served to increase sales and improve service without entailing increased costs.

Mail Order. The state mail-order service is another method of improving service with a minimum of expense. Instead of opening up specialized retail outlets in remote areas, the state is able to supply nonfood items by mail from regional warehouses. Although availability of sufficient supplies of goods used to be a problem, it is now possible to order any one of 5,000 articles through the mail. The cost will be the same as that prevailing in a retail outlet plus transportation, but to the consumer living in remote Siberia, who would otherwise be unable to buy the goods, this is a minor drawback.

While there may have been some heresies involved indirectly in the use of automatic vending and the other labor-saving techniques I have mentioned, there have been no direct ideological obstacles. Marx might have been gratified by such efficiency at the middleman's level -- but hardly with the next item to be discussed.

Comeback of the Marketer

We turn now to the beginning of what promises to be a fascinating chapter in the whole history of marketing. Structures which have been adequate for the primary stages of marketing development prove in the secondary stage to be outdated. Let us examine this more complex stage of trade and distribution and analyze the forces which are bringing about new marketing structures in the Soviet Union.

Patterns of Distribution

As I indicated earlier, the secondary stage is characterized by a fundamental change in supply and demand relationships. Instead of long queues and perennial shortages, buyers' markets develop. As the standard of living of the consumer improves, he no longer spends all of his income on the basic necessities. His propensity to save increases. Periodically he is even able to afford consumer durables.

From the distributor's point of view, it is no longer a question of calculating demand for such inelastic items as bread and potatoes. In order to maintain inventories at their previous low levels, it is now necessary to estimate where, when, and what the customer will buy. The seller can no longer assume that because there is a general goods shortage, everything will be sold. As the selection and variety of goods grow, so does the task of calculating and allocating demand for these goods.

Buyers' markets are a familiar phenomenon in Western countries, and so are the problems of overproduction and excessive inventories. The point of interest here is that overproduction is not restricted to capitalism only. No matter what the ideological differences, as soon as a society reaches a certain state of "affluency," its consumers find they have extra income at their disposal. With a growing variety of products to choose from, they often act with considerable unpredictability.

While a prerequisite of the secondary stage is the existence of a buyers' market, there is more to it than that one condition. More explicitly, the secondary stage exists when nation-wide supplies of various goods, especially durables, begin to exceed the demand at the existing

price. The effects can be observed even though other goods may still be short of existing demand. To illustrate the difference:

A certain kind of buyers' market can exist in the primary stage -- for instance, a local surplus of bathing suits at Irkutsk in Siberia, due to a faulty allocation of goods. But, since the over-all demand for bathing suits is far from satisfied, reshipping the goods from Irkutsk to Yalta in the Crimea may completely solve this problem. In contrast, what can be done when consumers in Siberia and the Crimea, and other parts of the country too, are not interested in buying the existing production of expensive cameras because they cost too much? Or, rather, what must be done?

Under such conditions, the middleman becomes much more important and the scope of his functions grows. To balance production and consumption, it is no longer enough that the retailer confine his activities to maintaining a shop accessible to the consumer; nor is it enough that the other intermediaries store and reassemble goods. To cope with a consumer who has become quite fickle, new forms of marketing activity are required. It is now necessary to ascertain what the consumer wants, convince him to buy it, and make it as easy as possible for him to obtain it.

Affluence on Gorki Street

How does all of this relate to the Soviet Union, the land of the planned economy and the Seven Year Plan where "the nature of Soviet trade results in a planned balance between production and consumption"?⁵

Certainly, no one who has even seen the meager apartment of an upper-income or middle-class Russian, or the inside of a Soviet department store with its long lines of shoppers and poorly fashioned goods, would even suggest that the Russians have reached the advanced phases of the secondary stage of marketing development which characterize marketing in the Western world. Nonetheless, there are definite signs that the Russians are now experiencing some of the problems that are common to the second, more "affluent," stage:

As an indication of the overproduction of certain items, there are frequent complaints in the press about excessive inventory formation and accumulation of goods. For some articles like watches, there seems to be a surplus at all price ranges. Watches are now in such abundance that nobody buys them from the mail-order service any more, even though they were once a major component of mail-order sales volume. Khrushchev even gave them away in Pittsburgh.

⁵ B. I. Gogol, Editor, Ekonomika Sovetskoi Torgovli -- The Economics of Soviet Trade (Moscow, Gospolitizdat, 1958), p. 17.

For the most part, however, Soviet affluence extends only to the more expensive models of such products as television sets, radios, bicycles, hunting equipment, and cameras.

Since only a few upper-income families in the Soviet Union can afford, say, a television set costing \$1,400 (at the tourist rate of exchange of 10 rubles to the dollar) or \$220 camera, as soon as these few have made their purchases something must be done to widen the market. The solution thus far seems to have been something equivalent to a sales promotion campaign with essentially all the familiar capitalist trappings. There have been price reductions, product differentiation, advertising, installment selling, trade fairs. Although it seems unlikely that Khrushchev ever intended that peaceful competition between our two countries be extended to this area of economic activity, the growth of similarities has reached significant proportions.

Price Reductions

The easiest way to solve the problem of a buyers' market is to reduce prices. While there were annual price reductions for large numbers of goods from 1947 to 1954, these moves were principally directed at providing an improved standard of living. The alternative was to allow wage increases. Throughout most of this period there were still great shortages of almost all categories of goods.

After 1954 the ritual of widespread annual price reductions for propaganda purposes ceased. The markdowns made thereafter covered only a carefully selected list of goods -- significantly, goods in excessive supply. For the most part, the same items were selected each year. Beginning in August 1956, there were consecutive price reductions in April 1957, January 1958, and July 1959 of the expensive models of television sets, cameras, radios, and watches.

New Madison Avenue

Another solution is to advertise. While it is impossible to compare Soviet advertising with the scale and scope of advertising in the United States, the Russians use advertising for much the same purpose. For example, when a large shipment of herring suddenly arrived, Soviet trade officials were criticized for not advertising in order to broaden the market. It was felt that this would have solved the problem of spoilage which eventually resulted.⁶

Of the secondary stage symptoms in the Soviet Union, advertising is one of the most interesting. In recent years the range of advertising activities has grown from newspaper

⁶ Sovetskaia Torgovlia, May 10, 1958, p. 3.

advertisements and occasional billboard displays to include radio and television commercials, window display contests, all Socialist Advertising Conferences, special courses in advertising techniques, and finally the creation of official advertising agencies in the republics. Advertising copy is prepared, display ideas suggested, and outdoor advertising coordinated -- all for a fee, of course.

While much of the advertising is still informational in nature, more and more of it is becoming competitive. To illustrate:

*Often in the same paper the consumer is urged by means of advertisements to visit GUM and TsUM -- Moscow's two leading department stores -- because each one insists that it offers "the best in service."

*The Moscow consumer is further torn between Fish Shop No. 2 and Fish Shop No. 10 because each advertises that it offers the freshest fish.

*Competing claims can also be seen now in advertisements appearing for different brands of radios and television sets.

What accounts for this sudden acceleration of advertising activity? The most obvious answer is, again, the appearance of buyers' market conditions. I was told last summer by T. Stepaniants, who is the director of Torgreklama, the advertising agency of the Russian Republic:

"Because of increased production, the store managers now recognize that it is necessary to show the advantages of the many new goods which are being offered for sale. The store managers themselves were creating their own small advertising units to do this work, and we decided to coordinate and centralize their activities."

While Stepaniants acknowledged that there had been some uneasiness about accommodating his organization to the Marxist tradition, he felt that such attitudes had changed as store directors faced up to the problems of selling their merchandise and reducing their inventories.

Product Differentiation

Where there is advertising, there is likely to be product differentiation, but product differentiation has found its way into the U.S.S.R. for other reasons as well. One of these is quality maintenance. By differentiating one factory's products from another, the Russian authorities have found that they can take effective administrative action in the event of faulty production since they can immediately determine which factory is responsible.

And further more, some of the costs of administration may be reduced as a result of the realization by the factory that poor quality will be easily discovered. The savings in administrative expense may more than offset the wastes connected with production inefficiency and the costs of advertising.

Much the same argument applies in connection with offsetting the costs of distribution. Russian marketing officials have suggested that, within limits, the added expenses resulting from advertising and product differentiation make possible somewhat larger savings in the operation of a self-service system. And if the efficiencies of self-service are to be realized, and salesclerks eliminated, the record shows that advertising and product differentiation seen to be essential.

Installment Credit

While advertising and product differentiation may play some role even in the primary stage of growth, the use of installment credit would appear to be restricted largely to the secondary stage. Although certain areas in the Soviet Union have been experimenting with consumer credit since 1958, the official announcement that it was to be introduced throughout the Soviet Union came in August 1959. The wondrous tone of the official newspaper announcement is in itself fascinating:

"This department store sells on installment.... Such an advertisement will soon be seen in many store windows. For sale on credit! How magnificent!"⁷

With 25% down and 6 months to pay at a 1 % to 2% interest rate, the consumer will now be able to buy cameras costing more than \$40, bicycles, motorcycles, watches, television sets, and radios. For the first time, young married couples will be able to purchase durable goods that otherwise they would be unable to afford for several years. What lies behind this change? The demand and supply conditions of the limited assortment of goods to be sold on credit seem to indicate that an important motive for the revolutionary innovation was to increase the sale of certain slow-moving items.

Local Promotions

There is yet one other marketing technique used by the Russians to cope with the effects of the secondary stage. As the customer finds he has the chance to select

⁷ Sovetskaia Rossiia, August 16, 1959, p. 4.

not just a shirt, but a shirt with a particular color, collar style, sleeve, and material, the store manager finds that with many variables it is increasingly difficult to forecast the demand for his merchandise. Recently intermediary or middleman offices (Posrednitcheskie Kontory) have been created at the wholesale level to help solve this aspect of the problem. In order to recirculate surplus stocks of retail and wholesale trade organizations, these middleman offices issue bulletins and descriptions of stocks and wants. Moreover, they organize biannual and special trade fairs for the traditional purpose of bringing buyers and sellers together.

It is not only surplus stocks that are sold and resold. More and more, factory products enter the channels of distribution directly through trade fairs. With their ideal of the planned economic order, the communists have long scorned the trade fairs of Nizhni Novgorod and Kiev that characterized the Czarist era, yet promotions similar in nature are now being officially sponsored. For, as the variety and assortment of goods have increased, it has become more and more difficult to plan their distribution in a centralized manner.

The Russians have apparently decided, therefore, to decentralize the distribution system for consumer goods, and the trade fair serves as a mechanism to this end.

Conclusion

What is the significance of all this for the American businessman? Many marketing people will draw a sigh of relief, say "I told you so," and mumble to themselves, "I knew it had to happen. Otherwise those people just weren't human."

Oddly enough, this may be the actual explanation of the whole problem. Consumers are human, which means they are unpredictable. The minute that they are supplied with something more than their basic needs and are allowed to exercise a degree of choice, it becomes hard to anticipate their actions. It is no longer sufficient to predict the number of people who will want a size 15 collar and a size 33 sleeve. It is necessary to plan how many of these people will want blue, white, or gray colors with plain, tabbed, or button-down collars, and in cotton, oxford, or nylon -- not to mention sleeve and style variations. Naturally it is impossible to do this on a centralized basis and not to make serious errors. Even if the decision making is decentralized, there will be mistakes which then necessitate price reductions, advertising, product differentiation, and credit.

This argument in no way reflects on whether or not centralized planning can be performed effectively at the

heavy industrial goods level. Knowing the technological input coefficients in steel production, the planners may be able to predict accurately how much coal, iron ore, and limestone will be needed. But the problems are not quite the same at the consumer goods level.

As for the marketing functions themselves, it seems clear that there are certain basic operations which must be performed regardless of the stage of marketing development. Whether in India or in a pure Marxist state, the re-tailing and certain wholesaling activities must be performed even in the early years. At the secondary stage of marketing development, there are a whole new range of activities that become important. While it is not to be denied that many of these latter activities are frequently too wide in scope and result in waste, they nonetheless meet an important need and the functions must be carried out.

Because of chronic shortages of goods in the past -- and, in many instances, at present -- the Russians have never had to face these facts until recent years. Whatever Russian industry produced was sold. They could insist that any undue activity by a middleman inevitably was a sign of inefficiency and waste in the entire system. But the Soviet standard of living has been gradually improving. Now that the first faint signs of the secondary stage of marketing development have begun to appear, the Russian system of consumer goods distribution has begun to resemble the Western system more and more.

The communists are discovering through experience that some of the old, despised, capitalist marketing practices have an economic significance after all.

PUBLICITY IN RUSSIA

By an Advertising Correspondent
The Manchester Guardian
November 10, 1959

"Advertising broadens the knowledge of the consumer. With the aid of advertising consumers find and buy necessary products without waste of time. This speeds up the sale of commodities; the efficiency of labour in distribution increases; and the costs of distribution diminish." Somewhat clumsily put, perhaps, but still a typical example, it might be said, of right-wing propaganda for advertising. In point of fact, the quotation above was one of the resolutions agreed at an international advertising conference at Prague in December last, in which the Soviet Union and other Communist countries participated.

There seems little doubt that the official Soviet attitude towards advertising is changing, just as Russia's forty-year drought of consumer goods is coming to an end. A Soviet spokesman, no doubt, would still deplore the "evils" and the "wastefulness" of Western advertising. However similar it may seem to the capitalist version, advertising in Russia is distinguished in official Soviet eyes by always having a social purpose. Usually it is one of two purposes: either it is designed to persuade the consumer to adopt more modern ways (as Mr. Mikoyan has put it, it is necessary to encourage "the mechanisation of households, deriving from the rôle of women in a socialistic country"); or it is designed to dispose of temporary surpluses of goods, like watches, cameras, and radios, of which planned supply has somehow outrun planned demand.

This is not to say that a visitor to Moscow would be struck by a sudden rash of advertisements. "Pravda" and "Izvestia" still carry no advertisements at all. The Moscow evening papers do carry modest display advertisements on their back pages, promoting such unaustere items as a luxury restaurant or jewellery -- "the best gift." There are also consumer magazines carrying advertisements on the bookstalls, and the occasional neon sign, urging the citizenry to deposit money in the savings bank, or to eat caviar. Radio advertising is used to accelerate movement of surplus stocks and to announce the arrival of some new line in the stores.

Persuading the consumer

Three-minute films in the cinemas and on television exhort the Soviet housewife to advance the mechanisation of her household. One such film, described by an American tourist, depicts an urban housewife receiving by telephone the news that a party of guests will arrive unexpectedly within the hour. Naturally she dashes off to her kitchen, takes

several packages of ready-mix cakes and pies from the shelf, and whips up a delicious spread. Guests on arrival cannot believe that all was done since they telephoned. Yes, indeed, says the housewife, it's so easy with the new pre-mixes. Thus close can Soviet Socialist Planning come to ITV.

But advertising of such exuberance still seems to be very much the exception in Russia. It remains to be seen whether the trend towards consumer persuasion rather than direction will accelerate as more consumer goods come on the market. Perhaps it is significant that market research techniques for finding out what the consumer wants seem to be increasingly practised in the Soviet Union. Perhaps also it is significant that a delegation of leading Russian economists which visited the United States last month elected to spend one full day out of a ten-day tour exploring a large advertising agency on Madison Avenue.

Consumption of Selected Foods per Head (lb)

	Soviet Union ⁺		UK	US
	1958	1965 planned	1958	1958
Meat ⁺⁺	84	158	106	161
Butter	8.4	11.2	19	8
Eggs	14.5	20.5	28	45
Sugar	57	93	115	98

*Production figure, but foreign trade unimportant. ++Carcass weight (including lard and offal.) Soviet figures of recent British and American production are taken to make figures comparable. Actual consumption in 1958 was: UK - 125 lb; US - 152 lb.

Table II

Textiles, etc. Consumption per head

	Soviet Union ⁺		UK	US
	1958	1965 planned	1958	1958
Cotton fabrics, yards	30.6	38	26.9	50.0
Wool fabrics, yards	1.6	2.5	5.9 ⁺⁺	2.9 ⁺⁺
Silk fabrics, yards	4.5	7	n.a.	n.a.
Linen fabrics, yards	2.5	3	n.a.	n.a.
Leather shoes, pairs	1.7	2.2	2.7	3.5
Paper, lb.	23.5	33.5	119	227

⁺Production ⁺⁺Square yards

Table III

Durable Goods, Home Sales per 1,000 of Population

	1958	Soviet Union		UK	US
		1952-58 average	1959-65 planned average	1958	1958
Watches and clocks	122 ⁺⁺	n.a.	n.a.	147	n.a.
Motor cars or motor cycles ⁺	1.7	1	2.7	11	27
Vacuum cleaners	1.2 ⁺⁺	n.a.	n.a.	22	18
Refrigerators	1.7	0.8	4.6	9	16
Wash. machines	2.3	0.8	6.7	13	16
Radio sets	17	14	22.7	24	50
Television sets	4	2.1	8.9	39	30
Sew. machines	14	8.5	16.4	n.a.	n.a.

⁺Motor cars for UK and US. Motor cycles for USSR, where sales of cars negligible (1958 output 120,000, part of which was exported). ⁺⁺Production.

Table IV

Durable goods, numbers per 100 of population

NOT TO BE MICROFICED

	Soviet Union ⁺		UK	US
	1958	1965 planned	1957	1957
Refrigerators	0.6	3.3.	3.7	26.5
Washing machines	0.6	5.0	9.7	23.5
Sewing machines	n.a.	16.0	n.a.	n.a.
Radio sets	15	19.5	28.5	78.8
Television sets	1.5	6.5	15.1	27.4
Motor-cycles	0.9	2.2	(7.7) ⁺⁺	31.7 ⁺⁺

⁺Estimates assuming average life of ten years for all goods, and of more for sewing machines. ⁺⁺Motor cars.

Tables from The Economist, September 5, 1959, p. 117.