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## COMMUNIST AREA

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### NEW ENTERPRISE STATUTE EXTENDS POWERS OF SOVIET MANAGERS, REDUCES THOSE OF MOSCOW

The full text of the Enterprise Statute, approved on 4th October 65 by the Council of Ministers USSR, was published in Economic Gazette on 20th October. It greatly increases both the powers of local management and its responsibility for any failure, while considerably reducing Moscow's ability to interfere in the economy at the basic level -- the enterprise.

#### General Regulations

The Statute is divided into six parts, the first of which is entitled "General Regulations." This begins by laying down the principle that the work of an enterprise is based on "centralized guidance combined with economic independence and initiative." The guidance is provided by the national economic plan.

The Statute applies not only to factories, but also to building firms, state farms and to the transport and communications sectors of the economy.

Management is to continue to be on the basis of leadership by one individual, as in the armed forces. The trade unions, party and komsomol organizations in the enterprise have the right to discuss the factory's work and the living conditions of the staff, but there is no sign that a director must take their opinions into account when making his decision.

The state is no longer held responsible for obligations incurred by the enterprise, nor is the enterprise in future to be responsible either for the obligations of the state or

for those incurred by its superior agencies (such as trusts, firms, departments, etc.)

### Enterprise Property and Funds

Each enterprise is to have a charter, which lays down the magnitude of its basic and turnover funds.

The size of the turnover funds is to be laid down by the superior agency on the basis of representations made by the enterprise. The magnitude of these funds can only be changed during the year if the production plan is also changed.

The enterprise has to make amortization payments, both towards the cost of major repairs and the complete renewal of its basic funds. Such payments can be used for repairing spare parts etc., as well as for replacing worn-out machinery.

Under the new statute, up to 10% of the amortization payments have to be handed over to the superior agency as a reserve to aid those enterprises which cannot afford to pay for their own major repair work.

The new enterprise fund which has been introduced by the Statute may be used either for incentives improving living and working conditions or for improving production processes. Its magnitude is not defined in the text, but it is probably in the region of four percent of profits, to judge by other indications in the press. If so this means a fourfold expansion compared with present practice, to a level which may begin to exert a real influence on individual initiative, always provided that managers can be restrained from using most of it for production purposes.

Housing built by the enterprise out of its own funds is in future to be solely at the disposal of the manager. This provision is necessary because in the past numerous outside authorities have tended to requisition a factory's housing sometimes before it was even completed.

Managers are now given the right to lease out unwanted buildings or installations at the official rates, but they are not permitted to sell off their surplus capital assets. However these may be transferred to other organizations apparently without financial compensation.



As regards movable equipment, transport, investments, tools, materials, fuel, cattle, seed and fodder which are surplus to requirements, they may now be sold if the higher agency agrees or if it does not reply to the application for sale within one month.

The cash received in this way is treated as a part of the enterprise's turnover funds.

### The Work of the Enterprise

This section of the Statute begins by instructing enterprises to obtain:

"the maximum results with the minimum expenditure of labor, materials and capital...."

or in other words to work for the maximum profit.

They are told to make use of the achievements of foreign as well as domestic science and technology, and to take into account consumer demand. In drawing up their production plans and delivery contracts, managers are instructed to give priority to all-Union needs, presumably to reduce the parochialism which was evidently fostered by Khrushchev's Sovnarkhozy.

The enterprise is to "expand and consolidate" its direct economic links with consumer organizations, and this instruction applies to both heavy and light industry.

The most important single sentence in the entire text deals with consumer goods factories only, and it deserves to be quoted in full:

"Factories producing consumer goods organize their production of these goods on the basis of orders from trade organizations and of contracts concluded with them."

In other words, in so far as this injunction is obeyed, the entire consumer industry of the USSR is now to be transferred to a supply and demand basis, constituting a major step forward.

At present about 40% of the shoe and textile factories are already working on supply-demand lines. The Statute implies that every consumer branch, from furniture and carpets to teaspoons and toothbrushes, from television to tranquil-

lizers, is to change over to a system which is part and parcel of a socialist market economy.

### Rights of the Enterprise

The fourth section of the Statute defines the newly expanded rights of the enterprise. Under this heading it is made clear that changes "from above" in the plan are to be drastically reduced and are henceforth permissible only in exceptional circumstances.

Enterprise plans are to be made to cover five-year periods, so that managers can now look ahead and organize their work on a more rational long-term basis.

The directors now have the right to change technical processes laid down by Ministries or Departments if the change improves quality, reduces prime costs without adversely affecting quality or produces any other positive effect (this last vague phrase is not further defined in the text). For this purpose they can use money from either the enterprise fund or from amortization allowances.

A hint of increased flexibility in price-setting is contained in the Statute's clause which reads:

Prices for goods and bills for wages and services (apart from those required for internal factory needs) are fixed by agreement with the customer enterprise.

This seems to suggest that a major consumer, such as GUM in Moscow for example, can now negotiate to some extent with various factories to find out which can offer the lowest price. The procedure may apply to only a limited range of goods, but it is a step forward.

As regards labor, the manager can now choose whether to pay wages on a piece-work, hourly or contract basis. He can decide on the composition and remuneration of his own labor force, and must only remain within the total wage fund handed down by Moscow. The likelihood that these clauses will lead to a wave of dismissals, accompanied by higher wages for the remaining workers, has already been stressed in previous C.A.A. papers.

Highly-skilled foremen and other technical or engineering employees may now be paid an increment of up to 30% above their



normal wages provided that not more than 0.3% of the total wage fund is used in this way. Moreover these increments are not included when calculating the average wage level at the plant.

Any overexpenditure of the wage fund total results in the loss of his bonus for the manager concerned, until such time as the excess has been paid back by reductions in subsequent months.

### Management of the Enterprise

As in the past, dismissals can only take place with the agreement of the trade union, but clearly in cases where wages are to rise as a result, productivity is to increase, and therefore bonuses will also grow, the trade union committee in the plant is likely to be more accommodating than in the past.

In those Ukrainian coal-mines where there are now only three central indices, compared with 30 in the Khrushchev era, output has risen by 17% compared with last year whereas productivity has grown by 20-25% (P.E. Shelest's speech to the Ukrainian Plenum, Pravda, 22 October 1965). Since working hours have not changed during the year, it must be assumed that the labor force has been cut by about five percent on the average. Wages have risen "considerably," Shelest said, but he was not more specific.

### Conclusion

The Statute is an advance in several ways. It gives managers more room for initiative, enables them to manipulate their working capital at their own discretion, urges them to encourage direct horizontal links with other enterprises, and frees their hand concerning average wages and number of workers.

However the most significant aspect of it is the statement that all consumer plants are to base their work on orders received from customer organizations. Taken in conjunction with the fact that the main remaining central indicator is "volume of output sold," this inevitably means that for the whole consumer sector of the economy, command planning is at an end.

In no country can consumers be told how much to consume, any more than writers can be told (successfully) how

to write. The choices made by the citizen will now gradually decide what is to be produced by the light and food industry plants, and at the end of the year the results of their work, determined in this way, will have to be used by Gosplan to decide on approximate targets for 1967 and onwards. The dawn of indicative planning based on past and anticipated consumer preferences is now no longer too remote to be discerned.

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