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KOMMUNIST DISCOVERS LAW OF SUPPLY AND DEMAND

In its slow, erratic but relentless movement towards the theory of a "socialist" market economy, Kommunist has at last discovered and legitimized the basic law of capitalism - supply and demand. The latest issue to reach Munich (No. 12, 1963) carries an article by B. Mochalov which is unashamedly entitled "The Supply of Goods and the Demand of the Population."

The Soviet Government, as opposed to the Party's main theoretical journal, had authorized a free market system for those consumer goods which are in surplus as long as 3 years ago when M. Denisov, the Deputy Trade Minister of the RSFSR, recommended that as from 1962 centralized distribution should end and "free buying and selling" should begin. But this pragmatic ruling was such obvious heresy that the Party then ignored it in the main ideological publications, and consequently Mochalov's article constitutes a second major stride towards rationality.

Kommunist is extremely frank about the reasons for its economic revisionism. Although trade in the USSR has increased (for manufactured consumer goods and foodstuffs) from 67.7 milliard rubles in 1958 to 87.3 milliards in 1962, the retail trade plans for 1959, 1961, 1962 and the first half of 1963 were not fulfilled. Similarly while there are still queues and shortages of certain items, surplus stocks have now reached the dangerously high level of nearly 3 milliard rubles.

Mochalov blames part of the trouble on Stalin's discredited theory that in a "socialist" society the growth of purchasing power outstrips the increase in production, which he says was elevated to the rank of a "law of shortage obligatory in all circumstances and in all conditions of building socialism."

The Khrushchev era has replaced this by another theory which is defined by Mochalov as a "sufficient supply of goods to keep pace with the growing purchasing power of the population." But the difficulty about Khrushchev's redefinition is that it requires a rapid growth of productivity. The 7-year plan provided for a productivity increase of 45-50 percent, an average wage rise of 26 percent and an increase in the real incomes of workers and employees amounting to 40 percent.

Productivity has outstripped wages over the past four years, but it has not risen fast enough. The average growth of productivity per annum has been 5.7 percent, but the plan required 6.1 percent. Moreover in January and February 1963, Mochalov reports, wages grew faster than productivity in Uzbekistan, the Lithuanian SSR, and in Armenia. It is this type of development

which causes the continuing shortages, but the salesmen of the USSR are also troubled by the increasing selectivity of the consumer in the saturated fields such as woollens, watches, radios, bicycles etc. where either better quality or appreciably lower prices are now essential for further progress. Mochalov's formulation to describe this position reads:

"In the new conditions trade is ever more actively influencing production" -

i.e., demand is beginning to regulate supply.

As an example of poor quality retarding progress, he refers to the TV industry in which 25 percent of new sets reaching the shops are unserviceable and 60 percent of sets sold need repair within 6 months. Mochalov also insists on the need for better market research, because of the surplus stock problem. Between 1958 and 1961 retail trade increased by 31 percent, an impressive expansion, but in the same period stocks at comparable prices grew more than twice as fast - by 70 percent. Similarly the average turnover time has risen by 10 percent (to 94 days) over the past three years.

At the time of the 1960 reform, the words used by the RSFSR's Deputy Trade Minister, (p. 1 above) seemed to imply that the new shift towards supply and demand applied only to goods in surplus. But Mochalov suggests that it was intended to cover all consumer goods:

"In 1960 the party and government established a new system for planning the production of consumer goods. The production plan of factories making consumer goods was henceforth to be based on the preliminary orders from the state trading system and consumer cooperatives, and also on contracts concluded by these (sales) organizations with industry."

Mochalov sums this up by saying:

"In other words, it is essential that literally for every type of goods, the supply both in variety and in quality should correspond to the demand, while in volume the supply should cover it to the extent of the stocks really needed for uninterrupted trading."

Elementary economics perhaps, but still a refreshing change in the pages of Kommunist! As for market research Mochalov proposes a single nation-wide system to carry it out, and also achieves a major ideological coup by claiming that Lenin authorized it:

"In 1921, when calling on the Russian communists to 'study trade', Lenin specially stressed the need to study the demand of the population on the nation-wide scale."



'We do not need the old bureaucratic methods', he said, 'we need a study of trade conditions, accurate knowledge of them, and the ability swiftly to take account of changes...' "(Works, Vol. 32, p. 423.)

#### How Should Demand Affect Supply?

Mochalov's answer as to the mechanics for operating the law of supply and demand in the USSR divides the study of demand into two parts - current and future.

In his view, current demand should be determined first by the retail trade organizations, which would then feed their information to the wholesalers at raion, city, oblast or republic level. The wholesale organizations would subsequently prepare their orders for the factories, under the supervision of the Republican Ministries of Trade. Thus the Ministries would in effect be deprived of most of their executive power, and reduced in status to the role of an umpire.

As for future demand, this would be the primary responsibility of the Republican Scientific Research Institutes for Trade and Communal Feeding at Republican level. The overall control of both current and future demand studies is now the responsibility of the State Trade Committee of the Sovnarkhoz USSR.

Like Professor Liberman, Mochalov is a great believer in material incentives. He proposes that if the recommendations of the research institutes prove to be correct in practice, their staffs should be rewarded with a part of the profits made from the sale of the goods concerned. In the production sphere, he advocates incentives to interest the factory staffs to the maximum in the fulfillment of orders from the trade (n.b. not from the ministries).

Unlike Liberman, however, Mochalov also believes in active punishment of the producers of poor quality goods. If their products do not sell, the factories concerned would be fined, and anyone proven guilty of manufacturing rejects would be held personally responsible.

One real attraction of Mochalov's system for the state is that whereas at present the price reduction fund (0.5% of the turnover of the trade organization concerned) is supplied out of the central budget, he would have this burden transferred to the shoulders of the trade, to provide a disincentive for sloppy market research.

After beginning with "supply and demand" the Kommunist article sensibly ends with another capitalist slogan - that the customer is always right. In Mochalov's version, this becomes:

"It is the buyer who should always be the final judge in evaluating the work of a factory producing consumer goods. He, better than all the officials of the office of technical control (the work of which, of course, does not lose its importance) will judge the quality of the goods, the taste and skill of their designers..."

In which case many of the TV plants in the USSR have real cause for concern. But the important point to note about Mochalov is that he is, in ideological terms, far more of a revisionist than Liberman. Whereas the Professor is concerned to establish that a profits indicator based on capital employed should be used centrally to judge the work of a factory, Mochalov's system effectively bypasses the central authorities (though only for consumer goods) by making success dependent primarily on the maximum satisfaction of demand. Thus the indicators for the growth of productivity and the reduction of prime costs become secondary factors. So do the Ministries in Moscow and the other Republican capitals. This is decentralization with a vengeance, as well as a complete and authoritative rehabilitation by Kommunist of the law of supply and demand. The "socialist" market economy is still on its way.

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