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TOWARDS A SOCIALIST MARKET ECONOMY

Until some forty years had elapsed since the October Revolution, it was true to say that consumption in the USSR had always been held back to allow for a high rate of investment in industrialization and military strength. But in the last decade the situation has been changed so fast that by now the USSR is producing almost as many of the main consumer durables per capita as several of the major W. European countries.

For the past twelve years, as part of a deliberate major policy change initiated by Khrushchev soon after Stalin's death, the real incomes of the employed population have grown by 4% p.a. -- a creditable achievement by any standard. Even so the individual consumption level in the USSR is only about half the average for the Comecon Market countries, and there is still a lot of lee-way to make up. For example consumption per capita in 1958-64 grew only half as fast as here, in W. Germany.

Quality and servicing leave much to be desired, but in the past seven years the Soviet consumer sector has been changing rapidly from a seller's market into a buyer's market!

By 1958 a major "buyer's strike" had begun in the Ukraine. 6,000,000,000 rubles worth of clothes, kitchen utensils, footwear and haberdashery were accumulating dust on the store shelves because of poor quality and high prices. It was due to this huge build-up of unsold stocks that a Ukrainian Gosplan official suddenly discovered the answer. In June 1959 he asked plaintively:

Why are the majority of industrial goods and foodstuffs allocated (i.e. rationed) by the Ministry of Trade and the Cooperative Union? Is it not

time for relations between the wholesale and retail trade to be founded on the ordinary commercial basis of buying and selling?

It took six years for his proposal to be authorized in Moscow on the nation-wide scale, but since the September Plenum of the CPSU in 1965, Kolenko's once-revolutionary idea has become part of the new Kosygin-style orthodoxy.

In 1956, 1957, 1958 and in 1959, watches, bicycles, cameras, radios, radiograms and TV sets were considerably reduced in price² and in 1959 they began to be sold on hire-purchase -- sure signs that supply was already outstripping demand at the higher price levels.

At this point it became clear that the USSR had reached the secondary stage of economic development, i.e. the phase in Mr. W.W. Rostow's theory during which "the importance and number of middlemen rapidly increase." The planned distribution of labor for 1959-65 proved as much, in that it showed a trend towards increasing the proportion of non-productive to productive workers.

It was also in 1959 that consumer advertising, as opposed to the issue of slogans couched in the imperative, began to be seriously studied in the USSR. In that year a group of Soviet economists paid a visit to Madison Avenue, and as you can readily imagine, things have never been quite the same since. Market research began furtively to raise its head, and as a result Izvestia discovered that the Soviet citizen had grown in diameter and height to such an extent as to make 57% of the clothes turned out by the factories just too small.⁴

The Stalinist Pattern of Trade

Between 1930 and 1965, consumer goods planning was carried out by Gosplan and the Ministries of Trade, which sent orders to their wholesale offices in the various republics of the USSR. Each republican Trade Ministry supervised its own regional or urban administrations, and they in turn controlled the retailers. The wholesale offices in the republics shipped the goods allocated to them and administered the local warehouses.

- 1) A. Kolenko, Pravda Ukrainy, 17 June 1959.
- 2) Radio Moscow, 30 June 1959 and 27 August 1959
- 3) Manchester Guardian, 10 November 1959.
- 4) Izvestia, 2 December 1959.

Important items and goods in short supply were controlled from Moscow, whereas the control of secondary products for which there was no excessive demand was usually decentralized. In theory this system should have been efficient, cheap and fast-moving. In practice it proved to be wasteful, costly and cumbersome because the planners in Moscow were always months and often years behind the real changes in consumer tastes and demand.

Breakdown of the Stalinist Pattern

Because of the surplus consumer stocks problem, which became critical in 1959, the power to make major decisions had to be decentralized to local planning units, and factories were given an increased say in their own operations. Trade shows and regional fairs began to be held, and Republican Advertising Agencies were established in the winter of 1958. In ideological terms Marx was beginning to give way to Marks and Spencer.

By 1958, the Soviet production of wool fabrics exceeded the American level, and two years later the USSR was on the point of overtaking the U.S. in the production of some food stuffs and some other soft goods apart from wool. The main testing-ground then shifted to the consumer durables field and here too considerable progress can be recorded.

Soviet output of washing machines is now running at the rate of 3,800,000 units a year, whereas American sales in 1959 were 4,010,000. Soviet production of refrigerators is now at the 2,000,000 a year mark, which compares with sales in the U.S. of 3,750,000 in 1959. In TV sets, Soviet production is now about 4,400,000 sets a year, while the US sales in 1959 were 6,270,000 and in 1965 about 9,000,000. The USSR is making about 5,000,000 radios and radiograms yearly, compared with US sales of 10,245,000 radios in 1959. At the top end of the cost scale, cars in the USSR are being made at about 200,000 a year compared with 5 1/2 million in the US in 1959, and more than 8,000,000 a year by now.

Clearly then the USSR is still a long way behind. But the American and W. European markets for durables are now primarily replacement markets, with the period of explosive growth already behind them. This is by no means true in the USSR, which in 1963 had only 17% of the washing machines, 8% of the refrigerators, 1% of the cars, 17% of the TV sets and 20% of the radios owned by the equivalent number of US consumers.⁵

5) Current Econ. Indicators for the USSR, Joint Econ. Committee of Congress Washington 1965, page 5.

Another sign of the durables boom in the USSR is the fact that whereas in 1950, under Stalin, they amounted to only 25% of all consumer expenditure on goods other than food, by 1963 this proportion had risen to 40%. At present about 10% of the entire Soviet production of machinery and equipment is used for consumer durables, but this proportion will increase fast now that the Kremlin has decided to quadruple its annual rate of car production in the current 5 year plan.

By 1970 Soviet TV output should be about 7,000,000 a year and refrigerator output is scheduled to reach 5.3 million. Stocks will then still be below the US levels, but it is not certain that annual production rates in that year will be behind the American figures for these two items, as opposed to cars, largely because of the growth market versus replacement market factor.

In the 1966-70 plan (which so far has been overfulfilled) per capita consumption is scheduled to increase by 4% p.a., the minimum wage is to be increased (to 60 rubles a month), collective farmers are supposed to receive a guaranteed wage for the first time in Soviet history, and they are also to begin to be paid a small pension on retirement. All these facets of Soviet policy seem likely to lead to a rapid increase in the cash savings of the population, which throughout the sixties have been growing much faster than retail trade. For example in 1965 personal savings grew by 19%, whereas retail sales rose by only 8%.

There is therefore a lot of inflationary pressure on prices, and it is not shortage of money which has caused the buyer's market. It is the growing selectivity of the average customer.

In my view it can no longer be denied that the Kremlin is bent (the Chinese would say hell-bent) on producing a mass consumption society in the shortest possible time.

Build-Up of the Service Trades

Brezhnev and Kosygin, after removing Khrushchev from power, began a rapid expansion of the long-neglected services sector, in which investment had actually been reduced during the 1959-62 period. In the present 5-year plan turnover in retail trading is supposed to increase at almost 10% p.a., and investment in state trading is to be substantially increased. According to the Soviet Minister for Trade, Alexander Struyev, it is to go up 4,100,000 rubles

in 1966-70, compared with only 3 billion rubles in 1960-65.⁶ The retail sector already employs 4,500,000, and this year it expects to absorb 300,000 of those leaving school.

Self-service stores are now being built on a considerable scale, with an area of 1000 sq. meters in most cases. The mail order system, which at present is delivering about 4,000,000 parcels a year, has been hampered until now by the absence of a developed packaging industry, but the RSFSR Minister of Trade plans to be mailing 30,000,000 parcels a year by 1970.⁸

The number of restaurants and canteens is scheduled to go up by 45% during the 5-year plan, while there are supposed to be six times as many dry cleaning shops by 1970 as there are now.

At present investment in the service trades is increasing at 17% p.a., which is higher than the growth rate for investments in any other sector except the oil industry and light industry. Every Union Republic is to open a school for retail trade and a cookery school.¹⁰ At present the build-up of the service trades is being delayed by the fact that wages in this sector are still too low, but in 1965 they were increased by 22% on average to increase the recruiting power of the services as opposed to industry.

90% of the staff working in retail trade are women, and another severe brake on recruitment is the fact that there are not nearly enough kindergartens and creches to enable young married women to take such jobs easily.

Retail trade organizations were in 1965 authorized to allot 30% of their above-plan profits to the building of flats for their staffs, but even so housing is often allocated to women so far away from their jobs that travelling time takes up to 3 hours a day, and this is another obstacle to rapid expansion.

Hire-Purchase Growing

Sales on hire-purchase, a capitalist practice which until 1959 was regularly condemned by communist theoreticians, began on a small scale in the USSR seven years ago.

- 6) Moscow Radio, 15 June 1966.
- 7) Industriekurier, 5 November 1966.
- 8) Moscow Radio, 23 May 1966.
- 9) London Times, 2 March 1966.
- 10) Komsomolskaya Pravda, 14 December 1965.

At first they only accounted for about 1.6% of sales of consumer goods other than food,¹¹ but by 1964 they had expanded to nearer 10%. They are now accounting for about 3 billion rubles worth of goods annually, with TV sets, radiograms, radios, cameras and cine-cameras leading the list of hire purchase sales in that order. The state levies a fine of 0.1% for every day of delay in hire-purchase payments, thereby keeping the ratio of late payers down to about 2 1/2 %. At present each wage earner in the USSR owes about 30 rubles, or 10 days pay, for hire-purchase payments. Soviet hire-purchase terms are distinctly lenient by Western standards (25% cash down and up to six months to pay at 2%), and consequently the only real profit in the business derives from the stinging turnover tax on goods which otherwise might not be sold at all. Indeed one conference on hire-purchase held in Kiev in 1964 so far forgot its communist theory as to announce boldly that

"instalment selling is a progressive form of trade."

The capitalist world had discovered that profound truth a good many decades earlier, and now we can safely say that communism is being built on the never-never. (It might even arrive quicker as a result).

The Consumer Good Export Drive

One of the most interesting new trends in the Soviet economy is the gradual emergence of the USSR as a major exporter of consumer goods. Last year the USSR exported 86,000 TV sets, 375,000 radios and radiograms, 305,000 cameras, 5,115,000 watches and 29,000 refrigerators. This is certainly one cure for overproduction, and already the watch industry in Switzerland, Germany and Great Britain is beginning to complain loud and long about this unwelcome additional competition in some of its traditional markets. Before long we shall probably hear similar complaints from the West's camera manufacturers as well.

The communist planned economy is absolutely no guarantee against overproduction once market saturation is attained, and in recent years workers have had to be dismissed from Soviet factories making milk separators, sewing machines, meat grinders, electric stoves, watches, bicycles and cameras among other items. On the whole sales usually begin to decline when about 50% of the population has bought any particular article, and even heavy industry, which lies outside the scope of this lecture, has proven to be affected by overproduction in certain sectors.¹²

11) Ekonomicheskaya Gazeta, 25 July 1964, quotes this ratio as applying in the Ukraine in 1959.

12) N.S. Khrushchev, speech of December 15th 1963.

Housing

I want to say a few words about the housing problem, because accommodation is the most expensive single consumer item that the ordinary man buys in the course of his life.

In the USSR per capita living space last year worked out at about 6 1/2 sq. metres compared with 5 sq. metres fifteen years ago. Consequently the average Russian worker has less than half as much living space available to him as the average W. German or Austrian.¹³

Even in Moscow about 40% of the population still has to share a flat with other families, which explains the vast scope of the current housing drive. At present about 78,000,000 sq. metres of housing, i.e. 1,800,000 flats, are being completed each year by the state while 375,000 houses a year are built by private citizens for their own use.

On average there are still about 2.3 persons per room in the USSR, whereas in W. Europe 1 1/2 persons per room is usually considered the maximum permissible on health grounds. But more than half the Soviet families now have a flat or a house to themselves, and this constitutes a major improvement in the provision of the privacy which was so noticeably lacking during the Stalin years.

Even in the towns and workers' settlements, more than a third of all housing space was still privately owned in 1965 (805 million sq. metres belonging to the state, and 432,000,000 sq. metres belonging to individuals). In the countryside the proportion of private housing is much higher. The USSR certainly has the lowest rents of all the industrialized nations, since on average a worker pays only about 5% of his income in the form of rent. But the drawback is that only about half the expenditure on the upkeep of the state housing fund is covered by rents, and partly as a result repair work is usually carried out too late and too inefficiently.

Moreover the cost of maintenance and repairs is rising as a proportion of the state investment in new housing, and in 1965 it amounted to about 40%. The state and co-operative investment in housing construction is now running at about 5 1/2 billion rubles a year,¹⁴ which is more than in any other industry except agriculture, and probably defense.

This amount provides 1,800,000 families each year with a newly-built flat, and one result is that almost

13) U.N.E.C.E. "Annual Bulletin for Housing ... in Europe," Paris, 1963, pp 6, 7, 12, 38.

14) See Narkhoz USSR, 1964, Moscow, 1965, p. 515.

two thirds of the housing in the USSR is less than 25 years old. The average size of the new flats is only 42 sq. meters of floor space, but even so per capita living space has grown by about a quarter in the last seven years, a high rate of growth by any standard.

In political and ideological terms the most interesting development is the rapid growth of cooperative building under Brezhnev and Kosygin. This year it is planned to provide 8 1/2 million sq. metres, i.e. more than 10% of the total housing built by the state, whereas in Khrushchev's last full year of rule the cooperatives built less than 2,000,000 sq. meters. The great advantage of the cooperatives from the Kremlin's point of view is that they tie down large quantities of private savings for long periods, and consequently help to absorb excessive purchasing power. Moreover repair costs are borne by the cooperative members, not by the state, so that the state saves both in investment and in upkeep cost.

I would expect to see this move towards cooperative housing continue to expand, as a percentage of all construction, and before long it will be accepted that to buy private houses or flats for cash is just as normal as buying bread or any other consumer item. Indeed Literary Gazette has even suggested that prosperous Russians should invest their capital in the provision of cooperative housing for tourists in the Crimea etc., in return for a fixed interest dividend of 5% per annum.¹⁵ In five years or less we may see the first meetings in Moscow of share-holders' associations angrily trying to discover how and why the manager of their cooperative has vanished into thin air with their money.

According to U.N. statistics, the USSR is expanding its housing per thousand inhabitants faster than any country in Europe with the exception of W. Germany and Sweden.¹⁶ -- both of them high consumption societies. It therefore cannot be claimed that the Kremlin is not making great efforts in this field, and as the proportion of cooperative building gradually rises to perhaps 20% of the total of state construction in 1970,¹⁷ we can expect to see an even more rapid improvement.

Rents are likely to be raised gradually to cover a more substantial proportion of maintenance costs, and state housing will be felt much more widely as an increasing number of cooperative flats begin to be sold on the free market.

15) Literary Gazette, 28 April 1966.

16) UPI Geneva, 26 May 1966.

17) A.N. Kosygin, speech of April 1966 (Tass).

In the past the main obstacle to rapid increase in the living space provided for the urban resident has been the extremely rapid growth of the urban population, which rose by 25% from 1959-65, largely as a result of the flight from the land. But in the present 5-year plan it seems reasonable to expect a slow-down in the influx into the towns from the villages, partly because of the better wages, pensions and terms of trade now being granted to the peasants.

Since the urban housing stock is growing fast (it increased by about 50% in the past seven years) any appreciable decrease in the rate of the flight from the land would result in a faster improvement in the living space per capita than was achieved in the Khrushchev era.

The Kosygin Reforms

In September 1965, Kosygin introduced a major economic reform which had been previously tested on a small scale in the consumer sector. It eliminates about twenty centrally planned indices and gives much greater weight to profit, profitability and bonuses. Kosygin also encouraged the signing of direct contracts between enterprises, and changed the whole basis of Soviet planning from the "volume of output" to the "volume of output sold." Obviously the addition of that one little word, "sold," as the main economic indicator of a factory's performance makes an immense difference, because it puts both management and, in future years, Gosplan squarely in the hands of the consumer.

By the end of next year the entire food and light industries are to be working on the new system, which has already given a healthy boost to profits, output and productivity at the plants where it has been in operation during 1966.

Managers under the Kosygin system are now responsible for planning their own product assortment, for contracting with suppliers of materials and with the retail trade for deliveries. In the consumer sector they have been told to base their plans on direct contracts, which means the visible end of command planning as far as this important branch of industry is concerned. With the introduction of the "Enterprise Charter" in October last year, Gosplan's once sweeping powers in the consumer industries are being progressively reduced to the status of an indicative planning agency.

Managers now have freedom to decide the size of their production costs. Bonuses of 35% or more of basic salaries

can be paid for increasing sales and profits, but they are not allowed to exceed 50% of salary.

It seems reasonable to assume that many managers will now choose to modernize their equipment faster than in the past, and to plump for a smaller labor force of better skilled workers earning higher incomes. If this assessment is correct, many underskilled or unskilled workers will find themselves out in the cold, and the present agitation for unemployment compensation and for a Ministry of Labor which would be responsible for retraining and redeploying those who are sacked seems likely to increase to the point where the Kremlin has to act.

Imports of Decadence

I have told you a little about the USSR's gradual emergence as an exporter of consumer goods, but to complete the picture I would like to mention the import spectrum, which by now is both broad and a many-splendoured thing. When Khrushchev and Kosygin first decided to go into the business of obtaining long-term credits from the West, they opened the field in 1964 with a contract for \$150 million dollars worth of Terylene plant.

As a result the Soviet people will soon be appreciably better clothed, and the silhouettes of many Soviet women should benefit from a Lastex plant now being built by Pirelli. I.C.I.'s Terylene deal was only the trail-blazer for a much bigger and more far-reaching contract, the \$300 million deal with Fiat for the supply of a large car plant. Renault has been invited to modernize the existing Soviet automobile factories, at a cost of about \$50 million dollars, and all of you can well appreciate the improvement in freedom of movement and consumer morale which the completion of these plans will bring about.

A police state with a rapidly increasing degree of motorization is almost a contradiction in terms, and consequently we should not underestimate the difficulties for would-be thought controllers which 600,000 Fiats a year in 1970 seem likely to cause. An enormous infrastructure of roads, repair shops, service stations etc. will have to be created on the tiny existing base, and it seems quite probable that significant pressure for more private enterprise in catering and tourist facilities will be one long-term result. As you in West Germany know from experience,

the development of a motorized society also leads to more long-distance travel and consequently to a better and more tolerant understanding of other peoples. We can probably expect increasing long-term pressure on the Kremlin for greater currency allowances and more relaxed exit visa procedures to enable the future Fiat owners to get the maximum enjoyment out of their cars.

The most expensive single consumer import from the West, however, is neither Terylene nor Fiat 124s, it is quite simply food. Grain imports alone cost Moscow 195,000,000 rubles in 1963, 444,000,000 rubles in 1964, 358,000,000 rubles in 1965, and almost certainly another large sum this year, despite the all-time record harvest. When they read these enormous figures in their Foreign Trade handbook, Soviet economists must seriously ask themselves whether, even after making every allowance for the climate, there is not something seriously wrong with their agricultural system. From this feeling stems both the expansion of the private plots by Brezhnev and Kosygin in 1965 and the increasingly weighty references in the Soviet press to the need to allot a few hundred hectares of land to one small team of half a dozen peasants on a long-term basis (Pravda, 30 August 1966). This team is provided with its own tractors and equipment, and is paid on a principle very similar to that in West Germany (and now I am going to quote Pravda's own words):

"What you sow, you shall reap."

Implementation of the proposal on a large scale would mean a drastic change in the whole ideological basis of Soviet agriculture, to the ultimate benefit of the consumer.

Consumer Resource Allocations

During the present 5-year plan the Kremlin intends to shift from its present split of resources, which is 75% for consumption and twenty-five percent for accumulation, to an 80/20 ratio in favor of consumption. If this plan is carried out, it will lead to much better prospects for the consumer industries.

Let me close by describing for you what is known about the investment planning in the consumer industries for 1966-70. The total investment of the USSR (all branches) is expected to be about 310 billion rubles (1955 prices). Agriculture is the top consumer claimant, with 71 billion rubles, housing next with 30 billion approx., light industry with 6.5 billion, trade (4.1 billion) and the food

industry (2.6 billion). It follows that the USSR is likely to invest considerably more in agriculture than in defense (where expenditure on the defense industries was running at a maximum of 8,000,000,000 rubles a year as recently as 1964), (see T. Sosnovy Foreign Affairs, April 1964), and investment in housing will be more than 50% greater than the total Soviet investment in the iron, steel and non-ferrous metals industries (about 18 billion rubles). The most hopeful aspect of the immediate future, therefore, is that for the first time in Soviet history a five-year plan has been devised and is in operation in which annual investment in the consumer sector as a whole will significantly exceed expenditure on the armaments and metallurgical industries.

It can now legitimately be asked whether the economic stage of development which Mr. Rostow has called "high mass consumption" is not visibly waiting in the wings, to make its bow, if all goes well, towards the end of the 1970-75 plan. In addition consumer communism on the Kosygin pattern will encourage more individual responsibility, more decentralized initiative, and probably some parallel improvements in the purely political field. As the socialist market economy approaches, the chances of the first tender shoots of democracy appearing in the USSR will almost certainly improve.

r.r.g.

N.B.: The above is the text of a lecture delivered in Munich to officials of the D.A.G., at the request of the Institute for the Study of the USSR, on 30 November 1966.

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