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INDUSTRIAL SURPLUSES IN THE PLANNED ECONOMY

A Million Surplus Building Laborers

I. Introduction

II. Living Standards and Consumer Goods
(Problems of Communism, September-
October 1960
by Marshall I. Goldman)

p. 1

III. Union-Republic Gosplans Blamed for
Continued Production of Obsolete
and Unsalable Goods
(Ekonomicheskaya Gazeta,
12 July 1960
By G. Emdin)

p. 16

Introduction

As the USSR's production level continues rise, the problem of disposing of such surpluses as emerge continues to become more acute. At present the attention of Western observers is concentrated largely on the consumer sector (see Appendix 1 below) since it is here that discussion in the Soviet press is the more uninhibited and since the spectacle of a planned economy increasing its efforts in the direction of hire-purchase, advertising and market research has a fascination all its own.

But in the heavy industry sector the excessive output of coal for example, which began almost two years ago (Background Information, 16th December 1958) is now forcing on the Kremlin a large scale reduction of the mining labor force. In the Donbass 80,000 miners are to be fired during the next five years (Kiev Radio, 28 July 1960) and for the USSR as a whole, it is planned to sack 130,000 coal-miners during the 1959-65 period. (Pravda, August 8th, 1960). It is difficult to determine the total mining labor force at present, but for 1955 it was calculated as 832,000 by the ECE.¹ Probably the total had grown to at least 1,000,000 by 1958, when stocks began to become embarrassingly large, and if so at least one Soviet miner in ten will have to be retrained and found a new job if unemployment is to be avoided.

¹ Economic Survey of Europe, 1957, Geneva, Chap. VII, p. 34.

In the construction industry the percentage of workers to be eliminated is much higher. According to Pravda,² about 1,000,000 manual laborers are to be dispensed with in this industry alone during the 7-year plan. Here the number of workers is known with some precision, because in 1958, at the end of which the dismissals presumably began, there were 4,369,000 persons employed in the building industry.³ Thus in this case almost one worker in four will find himself compelled to seek a new job by 1965. The building industry has always been distinguished by its high labor turnover, but never before has it faced numerical contraction on this scale.

Some other branches of heavy industry are known to have accumulated surpluses of products as opposed to man-power, but presumably redundancies must follow, as they did in the case of the coal industry. Among them power-producing equipment,⁴ sulphur,⁵ crane mixers, clay mixers, tank bottoms, some types of machine tools and grain-cleaning machines (see Appendix 2 below) have already been publicly mentioned.

In these cases the marketing devices used to reduce the consumer goods surpluses are of no avail, and the central press is blaming the Gosplans of the various Republics concerned, as well as of the USSR, for negligence. In Soviet heavy industry the lesson that it is easier to produce than to sell is still being learnt. The Republic Gosplans are responsible for informing Moscow whenever a particular market becomes saturated. Sometimes they fail to do so soon enough, and sometimes even when the warning has been given, Gosplan USSR is up to 18 months late in ordering the cessation of production.⁶ On these occasions the unfortunate factory concerned has to hope that its appeals will be conveyed to "higher echelon", in the form of the Council of Ministers of the USSR, before it can expect a satisfactory decision.

In the consumer goods sector, the following articles are now reported to be in either surplus or adequate supply (Izvestia, 4 August 1960): rice, most confectionary goods, macaroni and tobacco products, vegetable and animal fats, canned vegetables, canned fruit, canned fish, tea, kerosene, petrol, herrings, washing and toilet soap, lace-ware, motor-cycles, rubber footwear. As the deputy Minister of Trade of the RSFSR, M. Denisov, has delicately put it:

² 8th August 1960, article by G. Zelenko, Chairman of State Committee on Technical Vocational Training.

³ National Economy of the USSR for 1958, Moscow, 1959, p. 659.

⁴ Background Information, 2 August 1960.

⁵ See Appendix 2 below.

⁶ Ekonomicheskaya Gazeta, 12 July 1960, Appendix 2 below.

"The existing excessive centralization of the planning of goods impedes the reorganization of wholesale and retail trade."

Coming three years after Khrushchev's "reorganization of industry", his remark is fair criticism.

In the RSFSR regulations lay down that stocks of food held by trade organizations should cover 33 day's requirements, but in fact they were sufficient in August this year for 56 days. Consequently storage problems have become acute, and the Minister recommends that instead of centralized distribution, a system of "free buying and selling" should be instituted for the types of goods now in surplus. As he says, "this would improve matters."

This unusually pragmatic communist also recommends that for consumer goods, planned output should be made dependent on sales as from 1962. Another major step towards a "socialist" market economy can therefore be seen to be in the making.

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LIVING STANDARDS AND CONSUMER GOODS

By Marshall I. Goldman
Problems of Communism
September-October 1960

Today our task is to tip the scales in world production in favor of the socialist system against the capitalistic system, to surpass the most advanced capitalist countries in labor productivity and output per head of population, and to attain the world's highest living standard. In this stage of the competition, the Soviet Union intends to surpass the United States economically. -- N. S. Khrushchev, "Target Figures for the Economic Development of the Soviet Union," Soviet Booklets, No. 47, London, 1959.

IN OUTLINING THESE GOALS of the Seven-Year Plan, Khrushchev did not mean to imply that success would come easily. He knows that particularly with respect to the standard of living there is a wide gap to be overcome, for of all the areas of competition with the United States, it is in this field that the Soviet Union lags farthest behind. Nevertheless, the rapid expansion of consumer goods production in the USSR during recent years, as well as the reforms that have been introduced in marketing procedures, reflect the serious determination with which the Soviet Government is approaching its ambitious program. It is the purpose of this article to assess the consumer goods targets of the Seven-Year Plan and to consider the changes which the increased flow of consumer goods has thus far brought about in the structure and operation of the Soviet marketing system. An attempt will also be made to gauge Khrushchev's predictions against prospective consumption and marketing patterns in the United States.¹

Growth of Retail Sales

By the time Stalin died in March 1953, the wartime destruction of a large portion of Soviet manufacturing facilities had been repaired, and industrial production had risen well above the prewar level. The long-neglected standard of living of the Soviet people, however, had improved only imperceptibly: it is estimated that real wage income in 1952, although slightly higher than pre-war, was still below the level which prevailed in 1928, the year before collectivization.² A significant improvement in the material living

¹ The author wants to express his thanks to the Russian Research Institute of Harvard University for its assistance in the preparation of this article.

The article is an expanded version of "The Soviet Standard of Living," which appeared in the July 1960 issue of Foreign Affairs. Permission to republish must be obtained from the Council on Foreign Relations, Inc., New York, N. Y.

² Janet Chapman, "Real Wages in the Soviet Union, 1928-52", Review of Economics and Statistics, May, 1954, p. 147. Even

conditions of the population took place only after Stalin's death.

An inspection of available trade data indicates the rapidity of the change. Retail trade increased by 23 percent in the second quarter of 1953, and by 26 percent in the second half of the year. This was, on the average, about double the quarterly increases in 1952, and triple the increase of the first quarter of 1953. Moreover, there appears to have been an even greater expansion in rural trade. Sales in the countryside increased by 30 percent during the first half of 1953, and by 32 percent during the second half.³

After the immediate post-Stalin surge, retail sales continued to increase at a somewhat more subdued but nevertheless fairly rapid rate. While consumer goods production has continued to take second place to heavy industry, and while many of former Premier Malenkov's more optimistic plans have been abandoned, the living conditions of the people have been improving steadily. By 1959, yearly sales of consumer goods were about double the sales of 1952, Stalin's last full year.⁴

Whether or not this rate of growth indicates that the Soviet Union can overtake the United States in living standards within the foreseeable future will be considered later. At this point attention will be focussed on the pressures created by the recent expansion of trade, both on the population and on the distribution network.

While life has materially improved for the Soviet citizen, there is every reason to believe that the increased supply of consumer goods has only whetted his appetite rather than satisfied his needs. The Russians have found that new apartments stimulate demand for new furniture, that new suits create a desire for new shoes.⁵ So goes the unending process of demand generation, a phenomenon well known in the consumer-oriented economies of the West.

In addition, consumer demand in the USSR is being stimulated by the growing exposure of Soviet citizens to Western living standards. More accurate information on the way of life in the West is being provided by the large number of

² (Cont'd) though it is probable that there were more workers per family in 1952, production of consumer goods was always of minor importance.

³ Data from Pravda, April 20, July 23, Oct. 28, 1952; Jan. 23, July 17, 1953; Jan. 31, 1954.

⁴ Because of changes of definition in data coverage, this is an approximate figure.

⁵ Sovetskaya Torgovlia, April 15, 1958, p. 1.

Western tourists visiting the Soviet Union each year, through the distribution of Western magazines such as Amerika, and by Western exhibits in Moscow. The frequent visits of Soviet delegations to Western Europe and the United States have had a similar impact. This was particularly true of Khrushchev's American trip, thanks to the relatively complete descriptive and visual coverage given in the Soviet press and news films of the sights the Soviet Premier had seen: the private homes, the farms, the highways, and the supermarkets.

In many respects, indeed, the Russian appetite for consumer goods needs little stimulation. The latent demand and the financial capacity for implementing it are in abundant evidence, at least among the favored groups of the Soviet population. The author personally met members of the upper and middle income strata who had the 25,000-40,000 rubles (two-and-a-half to four times the average yearly wage) needed to purchase a Russian car; they had been on the waiting list for three years and expected to wait several more. Khrushchev may be entirely correct when he asserts that the American system of individual automobile ownership and the resultant traffic problem demonstrate an irrational use of economic resources. However, his pledge to spare the Russians this problem by substituting a taxi pool for private car ownership hardly coincides with the dream of many Soviet citizens.⁶

The contrast in living standards, of which many Russians are now aware, has had a marked demonstration effect. Thus the author of one frank letter to a Soviet newspaper went so far as to criticize the emphasis on such technical triumphs as the Sputnik and the Tupolev jet airliner. He then dared to suggest -- and significantly, the paper printed his suggestion -- that a more important challenge to Soviet industry would be to produce a pair of shoes that would wear as long as those made in the West.⁷ The realization that other nations, and even other members of their own society, have a vastly superior standard of living accentuates the desire of the average Russian to obtain the same things; and the political pressure for more living conveniences rises accordingly.

Reform of the Marketing System

The growth in consumption has also had important repercussions on the functioning of the trade and distribution network, and has led to considerable changes, both voluntary and involuntary, in the operation and structure of the marketing system. The resulting innovations can be divided into two categories: (1) those introduced to improve the efficiency of the existing trade network; and (2) those designed to cope with the phenomenon of "overproduction", an unusual planning problem for a Communist state.

6 Rabochaia Gazeta, April 3, 1959, p. 2.

7 Sovetskaia Rossiia, October 4, 1959, p. 4; also reported in the New York Times, October 19, 1959, p. 4.

Although the volume of trade turnover has shown an impressive increase, the trade network itself has been enlarged at a much slower rate. By 1958 the absolute volume of trade had increased by almost 170 percent over 1940, yet during the same period the number of retail and restaurant outlets rose by only 30 percent.⁸ The slow growth of retail establishments has probably helped to check rising costs of distribution; on the other hand, the quality of service has suffered, and the consumer has been forced to queue up in front of stores at inconvenient locations. However, until there is a willingness to divert more investment funds from heavy industry and housing, all efforts will probably be concentrated on improving the efficiency of the existing trade network rather than on expanding it.

To facilitate the flow of goods through the inadequate distribution network, The Soviet authorities have introduced a series of "progressive" marketing methods. Since 1953, over 1,500 stores have been converted to self-service in the RSFSR alone.⁹ Similarly, vending machines dispensing everything from beer to eau de cologne have appeared throughout the country. A national mail order firm, Posyltorg, sends goods to provincial areas, thus reducing the need for retail outlets. These "progressive" institutional innovations, to be sure, do not always evolve in the operational forms familiar in the United States, and are often altered to meet Soviet conditions. Nor have they always improved efficiency or saved labor.¹⁰ Yet, on the whole, they have permitted the existing distribution machinery to dispense an increased volume of goods.

Finally, in an effort to improve the collection and supply of fresh agricultural products, the authorities have

⁸ Voprosy Ekonomiki, No. 8, 1959, p. 55. Naum Jasny disputes the increased sales figure of 170%. The Soviet 1956 Statistical Handbook: A Commentary. Michigan State Press, East Lansing, 1957, p. 178.

⁹ Sovetskaia Torgovlia, August, 1959, p. 7. For a more elaborate description of the operation of Soviet self-service, see this author's "Retailing in the Soviet Union", Journal of Marketing, April, 1960.

¹⁰ A case where self-service has resulted in a larger work force instead of smaller one is described in Sovetskaia Rossiia, August 1, 1959, p. 2. See also Sovetskaia Torgovlia, January, 1959, p. 10 and July 25, 1959, p. 4. A Polish cartoonist has bitingly summed up the difficulties connected with vending machine operation in the Soviet Union. He depicts a vending machine surrounded by a guard (the Russians are distrustful) and a nurse (they do not know how to operate gadgets safely). Reprinted in the New York Times, February 23, 1958. Magazine Section, p. 23.

expanded the functions of the middleman. Such products may now be transferred by the peasant or kolkhoz to an office of a consumer cooperative, which undertakes to sell them for a commission. Title is meanwhile retained by the peasant or the kolkhoz, who thus bear the risk until the produce is sold. The prime purpose of this arrangement is to reduce the importance of the kolkhoz market. While one may rightfully ask how Marx would have regarded such a resurgence of middleman activity, the essential fact remains that the experiment has resulted in increased competition for the kolkhoz markets, reduced prices, an improved division of labor, and, most important, a better supply of agricultural goods in urban areas.

More recently, other innovations of a somewhat different nature have been introduced.¹¹ In this case the purpose has been not so much to make better use of existing facilities, but to promote the sale of certain products, mostly expensive varieties of watches, bicycles, television sets, radios and cameras, whose sales have fallen below expectations.¹² Unusual steps were taken last year to dispose of such overstocked items. On July 1, 1959, the prices of almost all the more expensive models of these commodities were reduced 15-30 percent, and the "sale" was widely advertised and promoted. Subsequently it was also announced that the items in question would be sold on an installment basis, with interest charged on the unpaid balance.¹³ Such techniques are, of course, familiar in the West, and they are almost always associated with a buyers' market and overproduction. The decision to adopt them in the Soviet Union -- the interest charge in particular -- must certainly have perturbed the more orthodox among the Communist leaders.

The phenomenon of advertising in a Communist economy warrents special attention. There has recently been a notable increase in its scope and importance in the USSR: not only billboards and truck-side advertising, but even radio and TV commercials are now being widely used. All this, along with the staging of the first All Socialist Advertising Conference

¹¹ For a more detailed discussion of these reforms as well as the preceding changes, see the author's "Marketing -- a Lesson for Marx", Harvard Business Review, January-February, 1960, p. 79.

¹² Tsentralnoe Statisticheskoe Upravlenie, Narodnoe Khoziaistvo SSR v 1958, Gostatizdat, Moscow, 1959, p. 704, indicates that radio, watch and bicycle sales in 1958 were lower than in 1957 and/or 1956. The First Deputy Minister of Trade of the RSFSR, D. D. Korolev, stated during a recent visit to Boston: "A few years ago, we discovered that we had produced too many radios and cameras. We produced more than we could sell under the existing conditions."

¹³ Sovetskaia Rossiia, July 1, 1959, p. 4, described the price reductions. The issue of August 16, 1959, p. 4, outlines the procedures for installment sales.

in Prague in 1957, the holding of a nation-wide competition for the best window display in the Soviet Union, and the formation of several Soviet Republic Advertising Agencies in late 1958, represents a significant change in policy. What only three years ago was regarded as heresy is now considered an important marketing tool.¹⁴

Finally, the originally highly-centralized planning of distribution and retail trade is being gradually decentralized. Not only has the power to make major decisions been transferred to local planning units, but the operating enterprises themselves have been given increased discretion in conducting their own operations. Moreover, despite the strong ideological distaste for the participation of non-producing and non-consuming agencies in the flow of goods from producer to consumer, trade shows and exhibitions (yarmarki) have greatly increased in number and importance. Wholesalers of each commodity line hold at least two shows a year for the traditional purpose of matching buyers and sellers. Not only are newly manufactured goods marketed in this way, but slow-moving items, already on the shelves, are resold and recirculated by means of such intermediary operations.

To sum up, significant innovations in Soviet marketing have been introduced since 1953. While various reasons may be adduced for the reforms, including the desire to improve the living standard of the Soviet consumer, the increase in sales volume was probably the most important factor. The enlarged flow of consumer goods gave rise to two new developments. On the one hand, it inspired a series of ideologically unobjectionable institutional and technological innovations designed to improve the efficiency of the distribution network. On the other, it gave rise to economic phenomena that forced the introduction of marketing techniques theretofore traditionally stigmatized by Communists as distasteful features of capitalism.

The Seven-Year Plan

It may well be that as retail trade continues to expand, Soviet marketing methods will come more and more to resemble those of the West. But the crucial questions to be considered now are: How fast will the Soviet Union grow, and will it overtake the United States with respect to the standard of living?

Let us turn first to the Seven-Year Plan. By past standards the consumer goods targets originally announced under the plan were relatively modest. Whereas during the immediately preceding years the average increase in sales volume had

¹⁴ D. D. Korolev, during the visit mentioned in a preceding footnote, also stated that the Russians would welcome any information from American advertising agencies that might improve the technique of Soviet advertising.

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been almost 10 percent annually, the projected increase from 667 billion rubles in 1958 to 1,080 billion rubles in 1965 would have meant an overall increase of 60 percent, or only about 7 percent annually.¹⁵ However, in October 1959, less than a year after the announcement of the Seven-Year Plan targets, the Soviet Government called for a much greater expansion in the production of consumer goods. Although the goals were projected only three years ahead, the planned average rate of annual growth from 1959 to 1961 was increased to slightly more than 12 percent, or by a total of 42 percent.¹⁶ It seems fair to say that this sudden raising of the targets was the fruit of the psychological seeds mentioned earlier, the most fertile of which undoubtedly was Khrushchev's visit to the United States.

There is at present no indication that the Soviet government plans to maintain this pace beyond 1961. It may be assumed, however, that if they succeed in meeting the 1961 goals, maintenance of the 12 percent growth rate will be attempted through 1965.

As for food targets, the most significant aspect of the Seven-Year Plan was its call for the Soviet Union to surpass the United States in per capita production of butter, milk and meat. Indeed, on December 26, 1959, Khrushchev announced that Soviet per capita production of butter and total production of milk had already exceeded that of the United States. Considering the low levels of agricultural production during the collectivization famine of the 1930's, this is quite an accomplishment. But as the American economists D. G. Johnson and A. Kahan have pointed out, the relation of Soviet production of meat and milk to American production of these goods has improved little if any over the prerevolutionary era when Russia was a major livestock producing nation.¹⁷

¹⁵ Sovetskaia Torgovlia, March, 1959, p. 6. To some extent, this is a problem of numbers. As the base broadens, it takes a larger and larger absolute increment to maintain a given percentage growth rate. This was something Western statisticians had often cited when comparing early Soviet growth with that in more advanced Western countries. It is somewhat ironic to see the Russians now claiming the same defense. Sovetskaia Torgovlia, February 1959, p. 44, and April 1959, p. 10.

¹⁶ Pravda, October 28, 1959, p. 3.

¹⁷ Joint Economic Committee, Congress of the United States, Comparisons of the United States and Soviet Economies, G.P.O., Washington, D. C., I., p. 222.

It must also be remembered that the standard of living is not solely a matter of production. Distribution and marketing must be improved with rising output. It is one thing to show that certain things can be produced; it is another to provide them to the consumer in a fresh state and when he wants them. Thus, in the same speech in which Khrushchev claimed that per capita butter production in the Soviet Union is higher than in the United States, he also complained that Omsk had no butter in its stores and that milk and meat shortages were reported in Kharkov, Rostov and other areas.

Soviet production and consumption of soft goods other than foods have similarly improved in the post-Stalin years and are to continue to grow under the Seven-Year Plan. While the over-all average increase in production of such items is to rise by approximately 50 percent, the output of specific items such as knitted underwear is scheduled to double. Soviet production of wool fabrics already exceeded American output by 1958.

Clearly, the Soviets have brought about a vast improvement in the supply of consumer goods, at least compared to the dreadful days of the early 1930's. While they should have done much more, and done it sooner, the fact remains that they are on the verge of overtaking the United States in total production and consumption of certain food and soft items. The more important test, however, will come in the field of durable goods.

Under the Seven-Year Plan, sales of consumer durables are to increase at a rate much higher than that envisaged for the field of consumer goods as a whole. Thus, for example, the original plan called for an annual increase of 26 percent in the sale of washing machines; the revised plan raises the figure to 38 percent. For refrigerators the corresponding figures are 22 and 30 percent, and for television sets 19 and 25 percent -- as well above the over-all average sales growth projections of 7 and 12 percent, respectively.¹⁸

TABLE I, which includes a comparison of unit sales of various durable items in 1953 and 1959 with the planned sales for 1965 under the original Seven-Year Plan targets and the revised production estimates projected to 1965, gives some idea of the anticipated growth.

Taking the maximum variant, we find that by 1965 sales of Russian washing machines are scheduled to reach 4,750,000 units, which would exceed 1959 American sales of 4,010,000. For refrigerators, the original Seven-Year Plan goal for 1965 as well as the revised goal are lower than 1959 US sales. This is also true of the other durable goods included in the table. At best, sales of refrigerators in the USSR in 1965 will be three-fifths of US sales in 1959, or a little over

¹⁸ Planovoe Khoziaistvo, No. 2, 1959, p. 63.

TABLE I.

Production and Sales of Selected Consumer Durable Goods

USSR and US

(in thousands of units)

| | USSR | | | | US | |
|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 1953 ¹ | 1959 ² | 1961 ³ | 1965 ⁴ | 1965 ⁵ | 1959 ⁶ |
| Washing Machines | 3.6 | 724 | 1,215 | 2,450 | 4,750 | 4,010 |
| Refrigerators | 50 | 426 | 796 | 1,390 | 2,127 | 3,750 |
| Television Sets | 122 | 1,300 | 1,928 | 3,095 | 4,424 | 6,270 |
| Radios | 1,607 | 4,000 | | 5,800 | | 10,245 |
| Automobiles | 77.4 | 124.5 | | 200 | | 5,590 |

¹ Figures represent sales. Data on appliances from Narodnoe Khoziaistvo SSSR, (National Economy of the USSR), Central Statistical Administration, Gosstatizdat, Moscow, 1956, p. 57. Automobile figures from Narodnoe Khoziaistvo SSSR v 1958, Gosstatizdat, Moscow, 1959, p. 162.

² Figures represent production. Pravda, Jan. 22, 1960, p. 2.

³ Production targets announced in Pravda, Oct. 16, 1959, revised upward from original Seven-Year Plan figures.

⁴ Sales figures originally anticipated under Seven Year Plan. Planovoe Khoziaistvo, No. 2, 1959, p. 63.

⁵ Author's projections for 1965 production based on increased rate of growth implied in Pravda, Oct. 16, 1959 (see footnote 3).

⁶ Figures represent sales. Appliance data from Electrical Merchandising Week, Jan. 18, 1960, p. 35; automobile figure from Automotive Industries Statistical Issue, March 15, 1960, p. 79.

two million units. Yet, considering that total sales of washing machines and refrigerators in the Soviet Union were only 3,600 and 50,000 respectively in 1953, and 670,000 and 415,000 in 1959, the 1965 goals point to a further significant improvement notwithstanding the fact that, at best, the USSR is expected to surpass the 1959 US figures in washing machines only.

The USSR is much farther behind in housing and automobile production. Even though housing construction under the Seven-Year Plan is to be 2.3 times greater than in the preceding seven years, a noted Soviet economist, V. Nemchinov, asserts that 55 percent of the housing to be completed under the plan will be needed just to maintain present low housing standards, taking into account demographic growth and normal housing depreciation. Figuratively speaking, the Soviet Union has to run merely not to lose ground.¹⁹

While the Soviet government seems bent on duplicating some day many aspects of American life, matching the US automobile output is not a part of their current plans. Thus automobile production is to expand from the 124,500 units produced in 1959 to 200,000 units in 1965, but the government does not exhort Soviet workers to overtake the 1959 US production figure of 5,590,000. It simply cannot afford, nor does it desire, to divert from heavy industry the resources which even a modest fraction of the US production would require. Consequently, instead of a rate of growth equivalent to that of the other rapidly expanding durable consumer goods items, the projected seven-year increment in automobile production, amounting to 64 percent, is not much larger than the planned over-all increase in retail sales.

Let us now evaluate briefly the prospects for achieving production increases of the magnitudes indicated above, and thus for realizing Soviet consumer goods goals. The past record in this respect is not encouraging for the Soviet consumer. The Soviet Government has always regarded heavy industry as the most important economic sector, and consumer goods as dispensable. During the prewar five-year plans the targets for consumer goods were almost never adhered to. This background warrants a certain amount of skepticism toward planned increases in the immediate future.

But while heavy industry still enjoys the highest priorities in Soviet planning, an improvement in the supply of consumer goods is clearly considered more important today than ever before. Retail sales in 1960 are to increase by 6.9 percent over 1959²⁰ -- a very modest rise to be sure, but none-

¹⁹ "Nekotorye problemy planirovaniya narodnovo khoziaistva" (Some Problems in the Planning of the National Economy), Kommunist, No. 1, 1959, p. 86.

²⁰ Pravda, October 28, 1959, p. 3.

theless significant. Moreover, Khrushchev apparently expects that the required production increases in consumer industries will be achieved through improved efficiency and productivity, with little new capital investment.²¹ Better use of waste and scrap may, indeed, result in some added production. However, it seems unlikely that the 12 percent average annual increase required by the revised 1961 consumer goods targets can be achieved without substantial investment and a more rapid sales increase in 1960. If anything, the 6.9 percent rate of growth barely meets the 7 percent annual growth rate contemplated under the original Seven-Year Plan targets. By the same token, unless Khrushchev can be persuaded to allocate a considerably larger portion of Soviet economic resources to consumer goods production, his chances of fulfilling even the original 1965 goals are very slim.

Problems of Comparing Living Standards

But let us assume that the Soviets will attain their goals, and that they will reach or surpass American production levels of various consumer goods. Will this mean that they have overtaken the United States in living standards? To attempt to answer the question, it is necessary first to discuss some problems of measuring consumption levels where large stocks of consumer durables are involved. (These are well-known problems in measuring stocks and flows in the capital goods industry.) In addition to considering what has been newly consumed in the course of each year, it is also important to take into account goods that were purchased in previous years and are still in use. In other words, with the purchase of a durable consumer good, the standard of living is improved for the current as well as a number of subsequent years. Thus, if the volume of retail sales continues to grow at its present rate in the Soviet Union, one can almost anticipate a geometric rate of improvement as the stock of consumer durable goods is expanded.

The special characteristics of durable goods consumption have two further implications. First, we must assume that prior to Stalin's death actual Soviet living conditions were even worse than the simple retail sales data suggest. This is so because such a large proportion of consumption expenditures went into items that were completely consumed during each year. Second, the disparate content of consumption and the consequent variety in consumption cycles make comparative studies of relative standards of living, both internationally and over protracted periods of time, even more difficult than has already been suggested by various writers. How is one to describe in statistical language the relative standards of living of two countries when one country has a large stock of consumer durables and the other does not?

Any attempt to make such comparisons is further complicated by qualitative differences (regardless of durability)

²¹ New York Times, November 1, 1959, 4th Section, p. 4.

between consumer goods produced in different countries. To say, for example, that in 1965 the Soviet Union will produce 118 percent of the total of 1959 washing machine production in the United States is meaningless unless some way is found of taking into account the different qualitative characteristics of the units produced in both countries. (At the present time almost all Soviet washing machines are of the wringer type, with a very limited washing capacity.) Or how can one compare housing when residential building in the United States consists primarily of private homes, as against a preponderance of semi-private apartments with jointly shared kitchens and toilets in the Soviet Union? Moreover, even if commodities somewhat comparable in nature can be found, the comparisons remain suspect because of the generally poorer quality of products in the Soviet Union.

Finally, "consumer sovereignty" -- vague as this concept may be -- must be considered before comparing standards of living in exclusively quantitative terms. It is not necessary to prove that the consumer in the United States is an absolute monarch in order to justify the conclusion that his ability to induce producers to cater to his preferences and offer him a widely differentiated selection of goods is vastly superior to that of his Soviet counterpart. To be sure, as consumer goods production has increased in the USSR, so to some extent has the range of choices available to the Soviet consumer; but because of the lack of competition among the distributing organizations, much of the incentive to offer the consumer variety and choice is still missing.

TO ILLUSTRATE the "stock" concept in the measure of living standards, an attempt has been made in Table II to calculate the stocks of various appliances as they existed in the Soviet Union in 1959 and as they are expected to be in 1965. The sales figures for 1950 and 1959 are readily available. To arrive at an estimate of existing stocks, it would normally be necessary to find also sales figures for the years preceding that period, but since sales of most consumer durable items prior to 1950 were almost nil, the danger of making any significant error by disregarding them is small. If anything, the present estimates are too high and represent maximum stocks. The fact that no allowance has been made for replacement of scrappage, also tends to inflate the Soviet figures, for the poor quality of Russian consumer goods is common knowledge. Two possible estimates are offered for 1959-65. The larger, a projection of the revised goals for 1961, is certainly the upper limit. On the other hand, the original goals of the Seven-Year Plan are not necessarily the lower limit; they should be considered a median estimate.

Different problems arise in the search for comparable data for the United States. Because American stocks are subject to much wider fluctuations, it was considered safest to compare stocks of Soviet consumer durables with estimates of the number of American households possessing these goods. As

TABLE II.

Stocks of Selected Consumer Durable GoodsUSSR and US

(in thousands of units)

| | Washing Machines | Refrigerators | Television Sets | Radios |
|--|---------------------|---------------|--------------------|--------|
| USSR | | | | |
| Total Sales to 1965 | | | | |
| 1950 | 1 | 1.2 | 12 | 1,000 |
| 1951 | 3.2 | 14.5 | 54 | 1,000 |
| 1952-58 | 1,200 | 1,200 | 3,000 | 20,000 |
| 1959-65 | 10,500 | 6,700 | 13,800 | 35,000 |
| 1959-65 ¹ | 15,000 | 8,000 | 17,000 | |
| Total Stock ² | 11,700 | 8,900 | 16,900 | 60,000 |
| Total Stock ³ | 16,200 | 10,200 | 20,100 | |
| US | | | | |
| 1959 -- number of house- holds possessing given appliances | 47,100 | 49,600 | 45,500 | 49,950 |

-13-

1 Author's projections derived by applying the revised growth rate indicated by the new goals announced for 1961 in Pravda, Oct. 16, 1959, p. 1.

2 The sum of sales figures for 1950 through 1965 (first four listings under total sales), plus estimate for pre-1950 sales.

3 The sum of sales figures for 1950 through 1958, plus author's projections for 1959-65, plus estimate for pre 1950 sales.

Sources: 1950 and 1951 data from Sovetskaia Torgovlia, Central Statistical Administration, Gosstatizdat, Moscow, 1958, p. 57. Data for 1952-58 and 1959-65 from ibid., January 1959, p. 12; and from Vestnik Statistiki, No. 5, 1959, p. 91. Author's projections based on figures in Pravda, Oct. 16, 1959. Data on US stocks from Electrical Merchandising Week, Jan. 18, 1960, p. 59.

NOT TO BE MICROFICED

many American families now own duplicate sets of radios, television receivers and even refrigerators, the comparison in Table II tends to overstate the availability of Soviet durables while understating the corresponding United States figures.²²

Regardless of the sudden growth in production and sales, the stock of Soviet washing machines will equal only about 16 million units by 1965, or no more than 35 percent of the number of American households that already possessed them in 1959. The relevant comparison for refrigerators shows a maximum of 10 million Soviet units by 1965, compared to almost 50 million US households equipped with this appliance in 1959.

Similar disparities will continue to exist far beyond 1965 between Soviet and American stocks of other consumer durables. All this is not meant to imply that washing machines, refrigerators, television sets and radios are the only items to be considered in evaluating relative standards of living. Many more comparisons are necessary (and not just of material goods) before one can make a final judgment. Nevertheless, if precise comparisons of the stock variable for such other items as housing and automobiles were possible, the results would likewise be only to the advantage of the United States.

An approximate indication of the disparity between Soviet and American housing conditions is provided by the fact that in 1957 each Soviet urban resident had only 83 square feet of living space. Nemchinov, the Soviet economist mentioned earlier, admits that the Soviet goal of 129 square feet per person will not be achieved until much after 1965.²³ While an exact estimate of the corresponding American figure is not available, the most informed guess is that the per capita living area in the United States in 1950 was approximately 69 square feet, or more than double the 1965 Soviet goal.²⁴ Considering the housing boom since 1950, it is logical to suppose that the present US per capita figure is even higher.

Conclusion

What is to be concluded from all this? First of all, the Soviets are seriously determined to match not only the heavy industrial production of the United States, but also its

²² For example, compared with a stock estimate of 155 million radios in the United States, the number of American households possessing radios is about 50 million. Electrical Merchandising Week, January 18, 1960, p. 59.

²³ Nemchinov, op. cit., p. 86. (See footnote 19).

²⁴ This estimate is derived from data found in Leo Grebler, David M. Blank and Lewis Winnick, Capital Formation in Residential Real Estate, Princeton University Press, Princeton, 1956, pp. 82 and 119.

standard of living. In attempting to do the latter, they have shown a realization that improved retail trade is a convenient political tool for assuring public allegiance. But in trying to overtake the United States in consumer goods sales, they have also encountered many problems familiar in America. As long as the consumption level is kept low and the consumer is given more money than goods to buy with it, there is no difficulty. Whatever is produced is sold. But when conditions improve even slightly, new troubles arise. The Soviets have found that the consumer is fickle and that demand cannot be precisely estimated and planned, as they had always assumed. Where the market is thinner, certain commodities (usually those with higher price tags) simply do not move. The result is that the Soviets have had to fall back on capitalistic expedients such as advertising, consumer credit, and middlemen.

The standard of living will doubtless continue to improve in the Soviet Union, regardless of the chances for partial or total world disarmament. But a visit to any Soviet apartment off the main street or a drive through any Russian village makes it only too obvious that the time when the USSR may overtake the United States in living standards is hardly in sight.

At the opening of the 1959 American fair in Moscow, Premier Khrushchev asserted that "after the fulfillment of the Seven-Year Plan, we will need five years, maybe less, to overtake the United States in total and per capita production." Even if this were so, he should know that overtaking the United States in the production of specific commodities is not enough. Production must be sustained over a long enough period of time to allow the acquisition of these items by the average citizen. This is not to say that the USSR will never have stocks of consumer durables as large as exist in the United States; but considering the distance to be overcome and the past Soviet record in consumer goods production, the possibility of the Russians catching up within the present generation seems very remote indeed.

UNION-REPUBLIC GOSPLANS BLAMED FOR CONTINUED PRODUCTION
OF OBSOLETE AND UNSALABLE GOODS

..The Soviet citizen sees around him hundreds of innovations and observes: just a year or two ago these did not exist. He is grateful to the party, to the government, to the millions of fellow citizens whose hands created these high-quality, useful things. Yes, we are glad of these innovations. And we speak unkindly of those people who persistently turn out outmoded junk, scorning the technical level of the economy and the growing demands and tastes of our people. Great material costs, labor, and valuable time is still being spent on the production of items which are unnecessary and out of fashion. They are jamming our factory warehouses and yards, trade bases and stores. Where and to whom will we get rid of it? Who would be tempted by the rubbish? And who will be responsible for the billions scattered to the winds by those indifferent people who are still under the influence of days gone by?...

The state strictly prohibits the release of goods which do not have a market and the production beyond the plan of items for which there is limited demand. Does everyone remember this prohibition?

Here are the data about above-plan remnants of finished production in sovnarkhoz enterprises. In the RSFSR they comprise 3.5 billion rubles; in the Ukraine, 800 million rubles; in Kazakhstan, 160 million rubles; in the Baltic republics, 150 million rubles; in Uzbekistan and Azerbaydzhan, 140 million rubles each, etc. Of course, weakness in the supply and demand apparatus also contributed to this; the apparatus does not often display resourcefulness or efficiency in the distribution of its resources. But it can be said with certainty that many billions are frozen in goods rejected by the buyers.

The Volga Plant of Heavy Machinery for the Cement Industry of the Kuybyshevskiy Sovnarkhoz has turned out this type of products - crane type mixers, clay mixers, tank bottoms - above the program to the extent of almost 4 million rubles. Two million rubles' worth of grain-cleaning machines were accumulated at the Khersanskiy Combine Plant, and there are no orders for them. The IT-100 machine tool has for over 3 years been stored at the machine tool factory which made it, the Kramatorsk Plant, to the extent of 500,000 rubles' worth. There are no prospects for utilizing it. The Razdol'skiy Sulfur Combine of the L'vovskiy Sovnarkhoz accumulated 10 million rubles worth of products which were not provided a market and despite the lack of a market, their production is continuing. What is this? Sluggishness, indifference, blindness?

For 1 1/2 years the Chimkent Automatic Press Plant has made the A-412 automatic nut-forging machine, without having any shipping orders for them. The plan was fulfilled and overfulfilled, but the machines never went beyond the gates; there was no demand for them. Both the plant and the sovnarkhoz begged Gosplan USSR to refuse to allow the manufacture of the machines because they were laboring in vain. The entreaties went unanswered. The decision had to come, as the saying goes, from higher echelons, to discontinue manufacturing the A.412 in Chimkent during the last 6 months of 1960...

The canning industry of RSFSR sovnarkhozes manufactured 33 million jars of jam having an extremely limited market in 1959, without the consent of the trade organizations, causing an accumulation of produce to the extent of 65 million rubles in these businesses. In Moldavia, too, dozens of millions of jars of jam, eventually refused by bases and stores, were produced above the plan. After violating the law, the Khersonskiy, Odeskii and Belorussian sovnarkhozes surpassed their production quotas for difficult-to-sell products. The Severo-Osetinskiy and Krasnodarskiy sovnarkhozes receive innumerable refusals to pay for canned goods shipped without consent.

The stale canned goods in the Azerbaydzhan SSR became the talk of the town. For several years canned-goods production in this republic continued when it was clear that it would not satisfy the consumers.

This applies especially to preserves, jams, and several kinds of canned fish. Things went so far that, without exception, the marketing offices attached to, for example, the Zakatal'skiy factory, refused to receive its goods. However, production of these canned goods is continuing under the same conditions and will eventually surpass the plan quota. At the beginning of July 1960, there was more than 70 million rubles' worth of these leftover goods in the Azerbaydzhan SSR, a good two thirds of which was produced in 1959, and even in 1958. And yet in the period January-May 1960, there has been at least 500,000 rubles' worth of canned goods produced which have a limited market, and this includes the ill-fated jams.

A certain share of the guilt in the continued release of obsolete and undesired goods belongs to the union-republic gosplans. They are precisely the ones who are supposed to notify the sovnarkhozes and businesses in time of the markets for this or that article and to make lists of goods whose production should be completely discontinued or restricted. Unfortunately, this work is being conducted ineffectively and with significant delay, and in some gosplans, only as each incident arises...

G. Emdin (Ekonomicheskaya Gazeta, 12 July 1960).