

Radio Free Europe/Munich  
Evaluation and Analysis Department  
Background Information USSR

15 July 1960

SOVIET INDUSTRY IN MID-1960

The full report of the Central Statistical Administration (Pravda, 13 July 1960) on the first half of the current year shows that a modest decrease in the rate of expansion of the economy has begun. The volume of industrial output increased by 10% (almost 70,000,000,000 rubles) by comparison with the same period of 1959, whereas a year ago the C.S.A. reported a 12% rise over 1958.<sup>1</sup> Similarly the industrial output plan was overfulfilled by 4%, and in 1959 the equivalent figure was 5%. Slightly less luxurious supplies of new labor than in 1959 and a small drop in the rate of growth of productivity (down from +8% in 1959 compared with 1958 to +6.4% in 1960 cf. 1959) probably account for the gentle slackening of the pace.

The lessening of the productivity growth curve is due to the reduction in working hours, which now affects 20,000,000 people, while the new labor intake has been mildly reduced by the demographic effects of the war. Nevertheless more labor is still coming into the economy than the 7-year plan requires.

A year ago the real increase in the state labor force over mid-1958 was 2,600,000 "workers and employees",<sup>2</sup> whereas this year the real increase in the non-agricultural labor force is 2,200,000. The C.S.A. has boosted the increase in the "workers and employees" category for reporting purposes to 3,900,000 by announcing that 1,700,000 kolkhoz workers have switched to state farms or "auxiliary agricultural enterprises." The statistical jugglery involved does not obscure the fact that the man-power target for industry has been comfortably exceeded by 500,000 (the 7-year plan requires an annual increase of 1.7 million in the non-agricultural labor force). Presumably this overfulfillment is partly due to the effects of the fourth demobilization, which has now been in progress for several months.

Among the industrial figures it is noticeable that the rate of expansion of output by light industry has quickened. Its production this year was 109% of the 1959 level, whereas a year ago it came to 107% of the 1958 figure.

<sup>1</sup>Pravda, 14 July 1959.

<sup>2</sup>See Background Information, 17 July 1959 "State Labor Force: Plus 1.8 Million", Pravda, July 14, 1959: the figure was reduced to 1,800,000 net by transferring 800,000 MTS workers to kolkhoz status.

On the heavy industry side steady progress was made in the ferrous metals, with steel output during the first half of the year at 32,000,000 tons. The equivalent U.S. output for the same period was probably about 60,000,000 tons (New York Times 10 July 1960, N.Y. edition).

As regards coal, the surplus to which attention has already been drawn in these papers (see Background Information, 18 February, 1959 "Dealing with the Donbass Coal Surplus") has now led to the beginning of a decline in the total number of hours worked by the mining labor force. Whereas production was up by only 2% over the mid-1959 level, productivity in the industry has increased by 6% in the same period, thereby illustrating the raison d'être of the six-hour day which the miners have begun to enjoy under Khrushchev.

Much the largest leap forward in heavy industry has been in the output of chemical equipment which was valued at 1,039,000,000 rubles, an increase of 54% on the first six months of 1959. Despite this, productivity in the chemical industry only increased by 3%, so the number of workers employed in it is presumably expanding rapidly, since output was 11% up on the level of the first half of 1959.

In consumer goods, despite the increasingly rapid overall progress, there was a tendency to slow down production of some goods which are already known to be in oversupply. The recent price cuts affecting watches,<sup>3</sup> silk fabrics,<sup>4</sup> and bicycles were a significant pointer to the production shortfalls now announced in these sectors. The most impressive growth rates in consumer goods were demonstrated by television sets and domestic washing machines, the production of both being 36% up on the 1959 figures for the first half-year. The one consumer area in which there was a sharp setback was in bicycles (79% of the 1959 1st half output) but this is probably explained by a model change, since in the past Soviet bicycles have been notorious for their heaviness, and obsolete design as well as the excessive price.

The plan was not fulfilled for natural gas, turbine generators, oil equipment, excavators, prefabricated houses, domestic refrigerators and washing machines, despite the sharp increase in the number of the latter made (453,000 in the 1st half of 1960, 333,000 in the first half of 1959).

Industry as a whole increased its profits by almost 17% by comparison with the mid-1959 level, thereby clearly indicating the relative ease with which the Khrushchev plan for the abolition of direct taxes, as opposed to the turnover tax, can be carried out.

<sup>3</sup>July 1959.

<sup>4</sup>Radio Moscow, 29 February 1960.

In the transport sector the most notable development was the continuation of the drive to put the Soviet traveller into the hands of Aeroflot. The number of passengers carried by air increased by no less than 38% over 1959, but the railways succeeded in overfulfilling their freight plans. No claim was made concerning rail passenger traffic.

The squeeze in capital investment resources has not yet been overcome, it seems, because the half-year plan for capital investment was reported as 93% fulfilled. Compared with 1959 the three industries in which investment is growing fastest in percentage terms are chemical and rubber (+41%), engineering (+29%) and light industry (including food: +21%).

Production increased faster than sales in TV sets, washing machines, refrigerators and leather footwear, and it might therefore be presumed that stocks in these sectors are rising. Whether the hire-purchase system will remedy this position as regards the durable consumer goods remains to be seen. By the end of this year its impact will be easier to assess. Since demand for washing machines and refrigerators is still far from being satisfied, the rising stock levels must be assumed to be caused by the excessive price-tags on these goods.

In view of the absence of any information on wage levels in the C.S.A.'s announcement, the best indication of the increasing standard of living is provided by the figures on retail trade. Here it is claimed that the turnover in comparable prices increased by 9% over the level of the first half of 1959, which must be viewed as a satisfactory performance by any objective standard.

The adverse impact of the war years on the size of matriculation classes is illustrated by the statement that in the spring of 1960, 1,000,000 children graduated from secondary schools and schools for workers' and rural youth. Last year the comparable figure was 1,400,000 but not all of the difference can be attributed to demographic trends. Since many secondary schools are now switching over to the eleven-year course (previously ten years) some of the difference is artificial and will be compensated for by increased graduations in 1961. The steady expansion of the educational system is shown by the claim that 30% more general schools were completed in 1960 than in the comparable period of 1959. Despite this advance, the school building plans were not fulfilled.

In conclusion the overall picture of Soviet industry drawn by the CSA at mid-1960 is one of an economy still growing about three times as fast as that of the United States, but not as rapidly as during 1959. There is no evidence that the Soviet economy is expanding faster than that of Japan or Italy, the two free industrial nations which also have an abundant supply of labor.

R.R.G.

THE SOVIET INDUSTRIAL REORGANIZATION OF 1957

by Oleg Hoeffding

**NOT TO BE MICROFICED**

The RAND Corporation  
American Economic Review  
May 1959

I

The thoroughgoing reorganization of industrial administration and planning carried out in the Soviet Union in 1957 is too large a topic to discuss comprehensively and systematically in the time at my disposal. I will confine myself to a commentary on some selected aspects of these measures, to the neglect of many other aspects at least equally important. Let me also emphasize that I am taking the 1957 measures, so to speak, at their official face value: as an effort to make industry more efficient, and economic policy more effective, by better planning and administration. In other words, I will ignore the political background of the 1957 reforms, important and intriguing as it may be, because my Kremlinological competence is as limited as my time.

To indicate the drift of my argument, I want to submit that the 1957 reform was a radical measure only in an administrative sense. It introduced a concept of direction of industry, an execution of industrial policy, practiced on a very limited scale only in recent Soviet history -- a concept officially styled "administration according to the territorial principle." Under this concept, centrally determined (or at least approved) plans and policies are implemented by regional executive agencies, placed in general charge of their region's industry, regardless of branch affiliation. Even though the new administrative regime stops far short of establishing the "territorial principle" fully and purely, it differs sharply from the old system. This was based on the "branch principle" of vertical control of industry, regardless of location, by central agencies which, in name at least, were differentiated by industry branch. The radicalism of the 1957 reform derives mainly from the very substantial modifications which this changing of "principles" has wrought in the administrative environment of Soviet industrial and construction enterprises. At the risk of repeating what others have said before me, I am going to emphasize that "decentralization" is an inaccurate and misleading summary description of these changes.

Its administrative aspects apart, the 1957 reform impresses me not as a radical but as an eminently conservative measure, in the sense that it tried to correct various faults in the operation of industry and its structural and locational patterns, not by amending any of the basic institutions and operating principles of the Soviet economic system, as it applies to industry, but by organizational and procedural improvements within that system.

II

Let me first explain my contention that the 1957 measures were essentially conservative and why this aspect merits some

emphasis. The reorganization followed upon a period, dating roughly from Stalin's death, of sustained and critical public discussion of shortcomings in the planning and direction of industry and their ill effects on industry's performance and its structural, locational, and technological evolution. These discussions indicated profound dissatisfaction with the state and trend of affairs on the part of party and government leaders, industrial executives, and Soviet economists. Dissatisfaction among the leadership was also reflected in the frequent, if non-radical, organizational and jurisdictional reshuffles at the top levels of planning and administration. Some of these moved cautiously in the general direction of the 1957 reform, as the selective transfer of some industries to Union Republic jurisdiction, or the reduction in numbers of commodities subject to centralized planning and allocation. Other changes were reversed in 1957 -- like the 1955 bifurcation of Gosplan into long-term and short-term planning commissions. But they all had a distinctive feature in common with the 1957 reform: They sought to remedy the failings of industry by improving its environment of administration and planning without changing any essential characteristics of the centrally planned and administered "command economy."<sup>1</sup>

In other words, the main remedial actions of the period were confined to only a narrow range of the wide spectrum of remedial possibilities that were being proposed or academically explored. Some of these proposals and explorations were along lines that might have led to modifications of the very operating principles of Soviet industry if given institutional implementation. More specifically, there was an interesting concern with what were, at least, the prerequisites of economic decentralization. Among the men of affairs in industry there were pressures for greater scope for managerial decision making. Among Soviet economists, there was the well-known concern over the lack in their economy of valid criteria and incentives for rational economic choice, and their tendency to question and challenge, however guardedly and obliquely, the doctrinal and institutional constraints that tended to perpetuate these deficiencies. This was primarily an intellectual and academic trend, and there was certainly nothing to suggest that the Soviet Union was headed for some version of "market socialism." Yet, several Western observers -- writing before the 1957 reform -- had noted that various minor policy adjustments of the period and contributions by Soviet leaders to the industrial discussions suggested that the leadership showed signs of being infected with this quest for "rationality."<sup>2</sup>

There were other developments in the Soviet sphere prior to 1957 which seemed to raise at least the glimmer of an intriguing possibility that an industrial reform, when it came, might bring innovations more radical than an overhaul, however drastic, of the organizational structure of the command economy. In Eastern Europe, by 1956, there had been some important departures from extreme economic centralism. In the USSR, even by 1956, Khrushchev had shown himself a bold and far from conservative innovator in his agricultural policies.

<sup>1</sup> This and all other footnotes appear at the end of this paper.

My emphasis on the various pre-1957 trends that were the possible portents of more fundamental changes in industry than actually occurred may be merely a confession of my own fallibility. Yet, if anybody else had his expectations heightened by preoccupation with these trends, there may be some point in stressing that none of them found any formal reflection in the 1957 measures.

At least one of them, in fact, suffered a distinct setback. This was the movement for greater "directors' rights," which had been of some interest as a possible portent of a move towards decentralizing economic decision making, by extending the authority of enterprise managers, and freeing them of "petty guardianship" by planners and administrators. The managers' demands had been particularly insistent in 1955,<sup>3</sup> when they actually won some very modest concessions from the government.<sup>4</sup> One the eve of the reform, the Party's Central Committee still expressed an intention to "extend the rights" of (inter alia) "enterprises."<sup>5</sup> The theme, however, was conspicuously absent from Khrushchev's reorganization "Theses" of March, 1957.<sup>6</sup> Nonetheless, there was considerable advocacy of greater directors' rights in the public debate of the theses. This was acknowledged by Khrushchev when he was introducing the reorganization law in the Supreme Soviet, but only to observe that "we must give serious thought to this matter so as to make the proper decisions."<sup>7</sup> No decisions appear to have been made to date. Published legislation on the reform is entirely concerned with the administrative environment of enterprises and makes no de jure changes in their status.<sup>8</sup> The drastic remodelling of this environment does, of course, introduce a variety of de facto changes. It is hard to judge how they affect, on balance, the manager's elbowroom for decision making, but it may well have been restricted and not widened. He has been placed under, possibly, more immediate and intimate supervision by the regional Economic Councils than the more remote ministries and their glavki could provide. He may have been subjected to greater influence and interference by regional Party authorities and now lacks recourse to countervailing ministerial authority. More extraneous interference may result from the emphasis placed on "mass participation" in making the new system effective; e.g., through greater activity of trade union committees, or the counsel tendered by the new "permanent production conferences."

In fact, it would have been illogical to combine the 1957 reform with an extension of managerial authority, since some major benefits expected from the reorganization will only be reaped if the Economic Councils can, and do, interfere rather drastically with the existing enterprise structure and enterprise production programs in their regions. Their main initial assignment is to tidy up an, allegedly, very messy industrial structure inherited from the ministerial era and to reorganize it for more efficient use of regional resources. The Councils are instructed, for instance, to promote vertical integration, where appropriate, by merging enterprises previously severed by departmental barriers, or else they are supposed to promote cleaner specialization of enterprise production programs, by making enterprises stop inefficient subsidiary activities, and

NOT TO BE MICROFICHED

rely instead on outside purchase of semi-manufactures and components from specialized suppliers who, in their turn, will often have to be newly created out of the existing enterprise structure. At least for this transitional period of the restructuring of industry, then, the reform evidently had to be more concerned with giving the Economic Councils adequate power over enterprises, and their managers, than with giving more power to managers.<sup>9</sup>

Apart from the possibility of infringements of directors' rights originating at the new regional level, managers remain subject to essentially the same constraints from production and other plans prescribed for their enterprises. Soviet comments on the new planning procedures emphasize that plans, from now on, will be initiated by the enterprises themselves. One doubts, however, that this will enable the manager to exert more influence than before on his production program, as, in many branches of industry, his initial proposals are now subject to amendment at about as many stages as under the old system (Economic Council, Republican government and Gosplan, Central government and Gosplan, not to mention the Party hierarchy). Once his plan has been prescribed, the manager will be under the old pressures to abide by it, plus the new pressure (carried to him via the Economic Council) to be meticulous in living up to his extraregional production and delivery obligations, on which so much stress has been placed since the reform.

In brief, whatever the reform may have done to make the manager's life easier in various ways (as it probably has), it has transferred no powers to him from the planning and administrative bureaucracy and certainly has done nothing to increase his resemblance to the manager of a capitalist firm.

At the same time, the theme of directors' rights seems to have pretty well disappeared from public discussion since May, 1957. Otherwise, however, there has been no silencing of public exploration of additional remedies for the problems of industry. Soviet economists have been warned against the pitfalls of revisionism, but their quest for rationality continues actively. Also, one probably should not read too much conservatism into the lack of action on, say, the economists' counsel (which is divided counsel, anyway) on the need for a more sensible and more operationally influential price system for industry. Whatever the leaders' further intentions may be, they may have had strong pragmatic reasons for not changing too many horses in the midstream of industry's adaptation to its new administrative way of life and of preparing the new long-term plan. In any event, if Soviet agriculture has been the main sinner against rationality,<sup>10</sup> it seems but sensible to have beamed some of the light of reason into the darkest corner first, as Khrushchev has done in 1958, again in quite a nonconservative spirit. One prominent advocate of industrial price reform among Soviet economists, D. Kondrashev, was cheered by the June, 1958, reform of farm prices and marketings into observing that these measures "directly concern agriculture but are relevant to the entire system of price formation in the Soviet economy."<sup>11</sup>

NOT TO BE MICROFILMED

Concessions to the forces of rationality, moreover, need not be cast into formal institutional changes to be important and influential, and Soviet economists would seem to have reason to be cheered by continued signs that some of their arguments are influencing the decision processes of economic policy-makers. Improved criteria of economic choice could be just as beneficial to the quality of planners' decisions in a command economy as they would be essential prerequisites to any extension of managerial decision making. Failure to grant such extension has not stopped the Soviet leadership from relying on some of the tools of rational decision advocated by Soviet economists -- for instance, in the important area of investment allocation choices, an area in which some of the crucial decisions of economic policy have had to be made in recent years. Even in 1956 (as R. W. Campbell noted at the time), some of the leaders, including Khrushchev, had justified capital allocation choices in terms of the "pay-off period approach" -- an approach which then was allowed only "a sort of sub rosa existence" in Soviet economic doctrine.<sup>12</sup> Recently, Khrushchev relied on this approach quite explicitly, and in some detail, to argue the economic merits of thermal-electric over hydroelectric power investment in the present phase of Soviet development (which he did on the awkward occasion of opening the world's biggest hydroelectric plant, thus dedicating it, it seems, as a big monument to irrationality).<sup>13</sup>

Other indications could be cited of an apparently increased awareness among the leadership of the need to have its command decisions in economic policy significantly and systematically influenced by prior economic calculation. It would be surprising, in fact, if the leadership had not learned some lessons from recent experiences that should have brought home the dangers of economic policy made by command decisions unrelated, and perhaps even contrary, to economic calculation. Although in public the need for administrative reform was justified mainly in terms of shortcomings of the old chain of command, there has been ample implicit admission that the quality of the high-level decisions and orders passing down this chain had often been defective. The outstanding and grossest case (and the most poorly documented one) was the Party Directives for the Sixth Five Year Plan, which evidently had badly failed to match the planners' targets with the real production possibilities of the economy. There have been more candid confessions on less comprehensive, but still very important, decisions of past industrial strategy which are now deemed to have been gross and expensive boners. The infatuation with hydroelectric power is one case in point. Another was the continued high-pressure expansion of coal mining, conducted, as is now claimed, against the better knowledge (at the staff levels of planning, presumably) of the superior economic advantages of developing the petroleum and natural gas industries.

This readiness of the policy-makers to let their command decisions benefit from economic calculation may be quite an important complement to the formal measures of reform in industry, and also an important qualification to my verdict on the conservativeness of that reform. In order to improve its strategic decisions and directives, the high command seems quite willing to draw on some of the heresies (or potential heresies) of yesterday, and thus to harness them to its conservative task of

NOT TO BE MICROFICHED

preserving the fundamentals of the command economy, while at the same time seeking to improve its functioning and structure.

### III

On the administrative aspects of the reform, one may be flogging a dead horse by dwelling on the reasons why "decentralization" is not its essential feature and why this term is a misleading description of the whole thing. This has been pointed out by several Western observers.<sup>14</sup> In the Soviet Union, the term has been carefully avoided, and Khrushchev himself has praised the "shrewdness" of an unnamed American commentator who had suggested that the reform was not decentralization but "transfer of centralism nearer to the immediate production process,"<sup>15</sup> which is not a bad description for it. Yet, wrong labels hastily affixed are often hard to remove,<sup>16</sup> and a few words may be in order on why this label was picked, and why it is wrong. The label first appeared, I believe, because early interpretations of the 1957 measures fell prey to a sort of optical illusion. They focused their attention on the two most conspicuous features of the reform, which --viewed in isolation -- did suggest that the center had divested itself of a significant portion of its authority over industry, and had dispersed it to an unexpectedly large number of regional bodies. These features were the disappearance of most of the central industrial ministries and the appearance instead of the hundred-odd Economic Councils.

Much less attention (and Soviet publicity) was given to other essential aspects of the reform, which limited very severely the element of administrative decentralization contained in it. These included: a thorough reorganization of the USSR Council of Ministers and the State Planning Commission, evidently designed to provide industry with a better informed and more effective central high command; and the narrow limitations placed on the authority vested in the new Economic Councils, and a system of checks and safeguards established to keep them within their limited bounds, and responsive to central direction.

The changes made in 1957 at the level of the USSR Council of Ministers and Gosplan may be discussed by comparing the nature of, so to speak, industrial representation on the Council, before and after the reform. Under the old system, industry was represented mainly by the thirty-odd ministers in charge of as many branches (in concept if not always in fact) of industry and construction. According to the official critique of this old system, each of these ministers was imbued with his particular departmental interests, had his vision and information restricted to his branch, and was heavily encumbered with routine administrative business. The old Council, on the other hand, provided relatively slight representation to central agencies concerned with, and informed on, broad interbranch and suprabranch aspects of industrial planning and policy, and not burdened by operating responsibilities. These were represented by the chiefs of the two Planning Commissions into which Gosplan had been split in 1955, those of the State Committees in charge of specific matters affecting industry as a whole (like promotion of new technology and co-ordination of wage policy), and the chief of the Central Statistical Administration.

Since we know so little about the internal operating processes at the top echelons of the Soviet State-Party hierarchy, there is little point in speculating on how the function of the Council of Ministers within its own decision-making sphere was affected by the prevalence of the spokesmen of industrial departmentalism over those of industry at large. However, since the top-level decisions of industrial policy, presumably, are made in the Party Presidium-Secretariat stratum, the Party leadership would probably assess the worth of the Council of Ministers not so much by its efficacy as a decision-making body as by its quality as an executive agency for the transmission to industry of top-level directives. Here, it was probably important that the principal machinery for implementing industrial policy was provided by the branch oriented and highly self-contained vertical command structures of the industrial ministries. This system evidently had proved itself a very poor transmitter for the decisions of the high command to industry in the field, and rendered top-level industrial policy making rather ineffective. This much can be inferred, I believe, from the stubborn persistence of so many of the problems of industry, exposed in the years prior to 1957, in the face of repeated and insistent calls for corrective action in the resolutions and directives of the last two Party Congresses and several plenary sessions of the Party Central Committee.<sup>17</sup>

Also, the old system evidently suffered, not only from excessive branch differentiation, which allowed three dozen separate industrial chains of command to reach the "cabinet level," but even more gravely from dilution of the "branch principle," in practice and over time, by ministerial self-sufficiency, and empire-building tendencies. These are alleged to have turned what was intended to be direction of industry by branches into diffuse and somewhat chaotic "departmentalism." Two -- possibly extreme -- examples were provided by the Ministry of Tractor and Agricultural Machine Building, which accounted for only 16 per cent of agricultural machinery output, while such machinery was produced by enterprises of 24 ministries, and the Ministry of Machine Tool Production, which controlled only 55 out of a total of 171 plants primarily making machine tools and scattered among 19 ministries.<sup>18</sup>

This administrative scrambling of industry (apart from its well-publicized effects on industrial structure, location, and performance) must have seriously degraded the effectiveness of the old system of central direction, both in the enforcement of policy decisions and in conveying information to the policy-makers. To the extent that it impaired their ability to oversee and foresee the sectoral development of industry, it must have been a source of special frustration for the high command at a time when its policy making was so prominently concerned with the correction of disproportions among, and within, industrial sectors.

These, I believe, were at least some of the defects of the old industrial center which were to be corrected by the simultaneous decimation and reconstitution of the Council of Ministers in May, 1957.

Abolition of most branch ministries was evidently intended to remove two of its faults: the fragmentation of the central chain of command into thirty-odd separate chains and the congestion of the system with administrative routine, which has now been delegated to the Union Republic governments and the regional Economic Councils. The ministerial seats thus vacated were filled in a way that suggests two main objectives: to have the Council -- and the Party policy-makers above it -- better served with information relevant to the making of high-level industrial policy and to provide a simpler but more effective chain of command for transmitting directives to the new subordinate executive echelons.

The first objective was served by the allocation to the re-united Gosplan of no less than eight seats on the reconstituted Council. This decision to let the planners (with their, presumably, superior and more sophisticated insight into the affairs of industry at large) move in on the Cabinet may well be a formal manifestation of the tendency I had noted before to let central policy decisions be more directly influenced by economic calculation. In a military analogy, it looks as if the "senior staff" was asked to sit closer to the "commanders" to help guide them to better command decisions.<sup>19</sup>

Apart from its invasion of the Council of Ministers, Gosplan was also charged with new responsibilities which appear to go well beyond its traditional functions (and which I have not seen adequately explained in Soviet sources). It was directed by the reorganization law to help "implement" economic policies; e.g., a "unified centralized policy for the development of the most important branches of the national economy."<sup>20</sup>

The second objective -- that of forging a simpler and more direct chain of command -- was reflected, in part, in the appointment to the USSR Council of Ministers of the chairmen of the ministerial councils of the fifteen Union Republics, who are now charged with direction and supervision of the regional Economic Councils.

However, abolition of branch differentiation in the central direction of industry has not been complete, by any means. Cabinet representation has been retained for several key sectors of industry (the defense production, electric power, and chemical industries). Enterprises in these sectors have been turned over to the Economic Councils for housekeeping purposes, but their ministries have either survived, or been transformed into State Committees. In both these forms, they evidently now serve as the planning staffs and supply close central supervision of these sectors. For other, publicly unspecified, sectors the same function is probably exercised by those major industrial divisions of Gosplan whose heads have been appointed to the Council of Ministers.

As to the other feature which heavily qualifies the "de-centralizing" aspect of the reform -- the careful and severe restrictions placed on the authority of the regional Economic Councils -- I can do little more here than emphasize their existence and will not even try to summarize the catalogue of their rights and duties contained in the 138 articles of the Sovnarkhoz

NOT TO BE MICROFICHED

statute.<sup>21</sup> The Councils appear to have some scope for reorganizing industrial production in their regions, along the lines I have indicated above, but only to assure better fulfillment of prescribed plans. Also, their powers in this respect are acquired, to some extent, at the expense of the enterprises rather than by delegation of authority from above. Otherwise, their initiative seems largely confined to submitting proposals for review, change, and approval by higher authority -- as in the planning process, where the Councils produce the first drafts of regional plans, with the benefit of the intimate knowledge of local conditions they are presumed to possess. The great stress placed since the reform on the Councils' duty to adhere faithfully to production, investment, and extraregional delivery plans seems to emphasize that the Sovnarkhozy are not intended to be autonomous regional authorities but rather are to serve as more effective agents than were previously available for executing plans centrally laid down.

Let me note that there is some inconsistency between the tight regimentation of the regional Councils and the official expectations of great gains in industrial efficiency to be derived from their vigorous exercise of local initiative. For the Sovnarkhoz chairman, the line between praiseworthy independent enterprise and blameworthy (or even criminal) infraction of "state discipline" may be finely enough drawn to discourage the former.

On the other hand, the tight reins placed on the Councils probably minimize the risk of unintended autonomy, in the form of promotion of regional autarky, or other manifestations of so-called "localism." The "localist" peccadillos of some Sovnarkhozy have been given much deterrent publicity in the Soviet press, but such tendencies (for which there may be some perverse incentive in the new method of planning by economic regions) seem detectable and controllable enough so as not to constitute a serious threat of unwanted decentralization.

It is my impression, in short, that what was done in 1957 at both the top and bottom levels of Soviet industrial administration was intended to remedy weaknesses in the system of central direction of industry and not in any sense to weaken central direction itself. Nor do I see any evidence that adoption of the "territorial principle" of industrial administration denotes any shift in the center's approach to industrial policy, towards a significantly increased concern with regional economics or some kind of "balanced regional development." It is true that in the twenties Soviet industrial policy and industrial organization reflected such concerns. It is also true that since the "branch principle" came into its own in the early thirties, there has been continuous -- if rather academic and operationally noninfluential -- interest in so-called "economic regionalization"; i.e., the identification of major "organic" economic regions which, nominally, were taken into account in long-range economic planning.<sup>22</sup> I do not think, however, that it is legitimate to regard the Sovnarkhoz system as a revival of the administrative concepts tried out in the twenties (as Soviet writers have done, in pursuit of the current Leninist

NOT TO BE MICROFICED

myth),<sup>23</sup> or to interpret the 1957 reform as an implementation of economic regionalization. Some contributors to the Soviet debate on the 1957 theses seemed to expect that something like the latter was intended. Gosplan itself may have shared in this misapprehension, as in 1956 it appointed a commission to redistrict the USSR into a new network of major economic regions, only to have its proposals rejected in 1957.<sup>24</sup>

The territorial scheme adopted in 1957, however, was clearly selected by administrative and not economic criteria. All the new "economic-administrative regions" (to give them their full, and significant, title) conform to, or combine, existing divisions of local government and, at least equally important, the Party organization. The intention is evidently to utilize their apparatus to co-operate with, and supervise, the Economic Councils. To the extent that the 1957 reform was concerned with the spatial arrangement of industry, I believe its concern was confined to remedying the ill effects of ministerial departmentalism on industrial location and interenterprise relations, and to prevent recurrence of the locational absurdities alleged to have been frequent under the old system.

In fact, despite all the emphasis on the territorial principle of administration, many aspects of the reform acknowledge the paramount concern of present Soviet industrial policy with guiding the structural development of industry, on a national scale, in accordance with the leadership's preferences and priorities as to the relative pace of sectoral expansion, and with correction of the sectoral disproportions that have developed in the past. This concern is brought out in the retention of central policy direction of the key sectors by the USSR Council of Ministers, the directives to Gosplan which I quoted above, and the stress in the reorganization law that direction of enterprises by the territorial principle must "preserve their branch specialization."

These initial qualifications of the territorial principle have since been supplemented by indications of some reassertion by the center of authority delegated to Union Republics and Economic Councils in 1957, again for the sake of stronger enforcement of central preferences on the sectoral structuring of industry. Thus, any reallocation of investment funds assigned to numerous branches of heavy industry now requires special permission by the USSR Council of Ministers.<sup>25</sup> There is also a great deal of verbal stress in authoritative organs on the need for firm central controls. In September, 1958, Pravda declared that "centralized direction of economic activity is indispensable" for the "task of realizing radical changes in the structure of some branches of industry."<sup>26</sup>

All this may suggest that some conflict has emerged between the intent of the 1957 reform largely to do away with detailed, vertical control of industry by the branch principle and the center's concern with policy making, in effect, according to the same principle. This makes one wonder whether the next version of the organization chart of Soviet industry might not show some reappearance of branch-differentiated verticalism, at the expense of generalized territorialism. At the same time,

NOT TO BE MICROFICHED

the center's evident desire to keep a very watchful eye, even in detail, on the rather numerous "key sectors" makes one wonder whether the Soviet industrial high command has actually realized the perennial dream of all high commands: to be relieved of tedious minutiae and free to make its decisions on the lofty strategic level.

Footnotes:

1 A shorthand term borrowed from G. Grossman, "Economic Rationalism and Political 'Thaw,'" Problems of Communism, Vol. VI, No. 2, pp. 22-26.

2 Cf., e.g., Robert W. Campbell, "Some Recent Changes in Soviet Economic Policy," World Politics, Oct., 1956, pp. 1-4; Gregory Grossman, op. cit.; R. W. Davies, "The Reappraisal of Industry," Soviet Studies, Jan., 1956, pp. 308-331.

3 R. W. Davies, op. cit., p. 318.

4 In a decree of the USSR Council of Ministers, "On the Intension of the Rights of Enterprise Directors," Direktivy KPSS i sovetskogo pravitel'stva po khoziaistvennym voprosam, Vol. 4 (Moscow, 1958), pp. 451-459.

5 Dec., 1956, resolution of Central Committee, Pravda, Dec. 25, 1956.

6 N. S. Khrushchev, Theses of report "On the further perfection of the organization of administration of industry and construction," Pravda, Mar. 30, 1957.

7 Report to VII Session of Supreme Soviet, Pravda, May 8, 1957.

8 Reorganization Law, May 10, 1957, Pravda, May 11, 1957; and Statute of Economic Council, cited in footnote 21.

9 More thorough inquiry than I have addressed to this point, and the progress of more time, might also show that the de facto effects of the reform may include an element of centralization, on the regional level, of what had been managerial functions in the hands of the Economic Councils and their Branch Administrations. Although conceived as supervisory administrative agencies, they seem to be intimately enough connected with their enterprises to be, in effect, quasi-managerial bodies. That some Economic Council officials feel that way is indicated by a suggestion that they (as well as enterprise directors) should receive bonuses for plan fulfillment and overfulfillment because (in contrast to the old ministerial officials) they are "in daily contact with the enterprises," and influence their operations (Voprosy Ekonomiki, 1958, No. 2, p. 135).

10 Grossman, op. cit., p. 23.

11 D. Kondrashev in Den'gi i kredit, 1958, No. 9, p. 19.

12 Campbell, op. cit., pp. 8-9.

13 Pravda, Aug. 11, 1958. The period-of-recoupment calculus also has gained a greater measure of doctrinal respectability. At any rate, there was nothing sub rosa about its recent endorsement as the preferred criterion of investment-project choice by the Institute of Economics of the Soviet Academy of Sciences. (Voprosy Ekonomiki, 1958, No. 9, pp. 154-162.)

14 E.g., Philip E. Mosely, "Khrushchev's New Economic Gam-bit," Foreign Affairs, July, 1958, pp. 557 ff.; Michael Kaser, "The Reorganization of Soviet Industry and its Effects on Decision-making," paper presented at Berkeley Symposium on Economic Calculation and Organization in Eastern Europe, June 16-18, 1958.

15 Speech to VII Session of Supreme Soviet, May 7, 1957.

16 Cf. R. W. Davies, "The Decentralization of Industry: Some Notes on the Background," Soviet Studies, Apr., 1958, p. 1.

17 For instance, the scrutiny of industrial problems by the Party Central Committee session of July, 1955, dealt with many of the same defects that were still being castigated early in 1957, in connection with the reorganization. Cf. Davies, op. cit., in footnote 2 above.

18 A. V. Efimov, Perestroika upravleniia promyshlennost'iu i stroitel'stvom v SSSR (Moscow, 1957), p. 22.

19 Some of the changes made in the functions of the Central Statistical Administration (whose chief sits on the Council of Ministers, as before) probably are also part of the effort to improve information at the policy-making level. Industry statistics were previously channeled to this level through both the C.S.A. and the industrial ministries. C.S.A. has now become the sole channel; statistical reporting procedures have been simplified, and the frequency and detail of reports reaching high governmental levels has probably been reduced (Vestnik Statistiki, 1958, No. 7, pp. 75 ff.).

20 For the first year of the new administrative regime, Gosplan was also entrusted with operating the very sensitive (and badly mismanaged) system of interenterprise "material-technical supply" left over from the disbanded ministries.

21 Polozhenie o sovete narodnogo khoziaistva ekonomicheskogo administrativnogo raiona, Sept. 26, 1957. Published in Sobranie postanovlenii pravitel'stva SSSR, 1957, No. 12, pp. 409-429.

22 Cf. R. W. Davies, op. cit. footnote 16 above.

23 E.G., V. Kostennikov, Planovoe Khoziaistvo, 1958, No. 5, pp. 25 ff.

24 Efimov, op. cit., p. 34.

25 Planovoe Khoziaistvo, 1958, No. 10, p. 11. These branches include "ferrous and non-ferrous metallurgy, coal mining, the oil and gas, chemical and other principal branches of industry, as well as electric power generation."

26 Pravda editorial, Sept. 19, 1958.