

# RADIO FREE EUROPE *Research*

## COMMUNIST AREA

● USSR

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### DECENTRALIZATION OF 10-20% OF ENGINEERING CAPACITY PROPOSED

A discussion article in the latest issue of Problems of Economics (no. 8, 1965) advocates the radical extension of the supply and demand system into the engineering and processing industries. As a first step, the author suggests, 10-20% of capacity in all these heavy industrial plants should be withdrawn from the central distribution process and placed on a contract and demand basis.

The contributor of the article is Z. Atlas, a prominent Soviet economist, who has argued against the present price-determination system on the grounds that it favours heavy industry by artificially depressing producer goods prices.

The latest Atlas essay clearly reflects official thinking, at least in part, because it contains a demand for a "state price administration", which would be a central body charged with the planning and control of prices. The Atlas article was sent to press on the 9th of August, and within three weeks the new State Prices Committee of Gosplan was established under Vladimir Sitnin (Izvestia, 28 August 1965) to fulfill precisely these functions.

Atlas comes out strongly against the view that, given an ideal system of optimum planning with computers galore and the use of the best mathematical techniques, the plan can foresee everything everywhere. He believes that moral factors, changes in the market, changes in technology, etc., cannot be adequately processed by computers when a long-term plan is drawn up.

Instead he advocates the use of economic "levers" (as Kosygin has often done), i.e., profit, credit, and incentives, which at present are stifled by the dead weight of bureaucracy and "voluntarism" in the Soviet system.

Atlas recognizes that the phase of continual boom in industry is now over. When there is a "serious change in the market for certain goods" (by which he means a slump or recession), he points out that some heavy industry factories will be indirectly affected as well as the consumer plants which are hit in the first place.

Therefore, in the processing and engineering industries factories should be given the right to use part of their capacity at their own discretion (up to one-fifth in the initial transition stage) for contract-work which they themselves would negotiate with consumer plants.

Atlas is thinking in terms of contracts taking about two or three months to fulfill which, he believes, would introduce flexibility and allow for fluctuations in demand not only for consumer goods but also for semi-manufactures, machinery and equipment.

#### Price Reform Discussed

Atlas goes on from the need to let fresh air into the closed world of heavy industry to an outline of the reform which he would like to see in price formation. He argues that the introduction of the supply-demand system, which was first tested by the "Bolshevichka"<sup>1</sup> and "Mayak"<sup>2</sup> factories and is now operating in hundreds of light industrial plants, means improved quality, reduced gross output, and therefore reduced profitability if prices remain unchanged.

Prices should therefore, be increased where quality and sales improve and decreased where stocks are rising. (At present the Sovnarkhozy can only increase prices if costs rise, whereas Atlas essentially wants prices fixed in accordance with demand).

To bolster this essentially capitalist theory, Atlas refers to the success of the GDR, where for a year now differentiated prices have been one of the essential pre-conditions for the use of profit as the basic indicator of a factory's

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1) In Moscow.

2) In Gorky.

success. (Evidently Libermanism in East Germany is judged in Moscow to have triumphed over its detractors).

At present the State Trade Committee in Moscow is mainly responsible for watching over market changes which should, according to Atlas, affect prices, but he finds its work far from satisfactory. He claims that in the twenties market analyses used to be undertaken on a monthly, quarterly and annual basis both locally and in Moscow by the trade departments of the government and by the State Bank. The system should now be revived, he says, and the results should be widely publicized.

### Interest Rate

Atlas is all for a charge on capital, which he says should be "significant and uniform". Here he is arguing against some of the orthodox economists who have held that if an interest rate must be introduced, it should be lower for heavy industry and higher for consumer goods. Moreover, he cunningly observes that if the interest rate is not the same for all branches of the economy, it will be difficult to fix prices at the right level.

However, his ambition for a uniform rate of interest is long-term. He says that in the short run, the interests of speed may make it advisable to adopt a differentiated rate so that the charge on capital can take effect with the new prices which are to be introduced on 1 January 1966.

In support of the interest rate theory, Atlas tactfully cites Bulgarian experience (rather than any Western model), which has shown that a 6% charge on both turnover and basic funds can be a major economic stimulus.

### Wages

The last major point made by Atlas is that the wage system must be more flexible. At present the firm central control by the State Bank is "fettering the initiative of factories". Atlas, therefore, suggests that successful plants should begin to experiment with the abolition of the present preliminary control of the wage fund on the gross output basis and its replacement by a system of ex post facto control by a regular reporting system. Factories which temporarily exceed their wage fund limits under this system would be subsidized by a special reserve held by the Sovnarkhozy or ministries.



(Incidentally, the fact that Atlas refers to the Sovnarkhozy repeatedly in his article may be an indication of his belief that they will survive the changes to be made by the next Plenum and Supreme Soviet session).

For support of his wage theory, Atlas turns to Hungary, where he finds that the system of a return to preliminary wage control in factories which overspend their wage funds has been an effective sanction.

Once flexible wages are introduced, together with realistic prices and the charge on capital, Atlas believes that:

The factories themselves would find the optimum combination of current expenses, quality (taking account of reduced or increased prices) and capital expenditure.

[Emphasis supplied]

A programme such as this involves much greater freedom for the managers and a fair measure of decentralization. It probably has a greater chance of early realization than the more radical proposal to put up to a fifth of the capacity in the engineering and processing industries on a supply-demand basis. Nevertheless, the latter suggestion is also of potentially far-reaching importance for the future.

Maturity for Soviet industry, which began in the textile and shoe trades with the "Bolshevichka" and "Mayak" experiments, may be about to spread into a large area of heavy industry. The political impact of such a development would be considerable. Once started, the process would be hard to reverse, and its principle is not likely to be at all palatable to the more dogmatic members of the "metal-eating" faction in Moscow.

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